Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

PHILIPPINE CROP INSURANCE CORPORATION
JUN 09 2016
Office of the President

June 9, 2016

ATTY. JOVY C. BERNABE
President
Philippine Crop Insurance Corporation
7th Floor NIA Building A, NIA Complex
EDSA, Quezon City

Dear Atty. Bernabe:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Philippine Crop Insurance Corporation (PCIC)** for the year ended December 31, 2015.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2015 in view of the following:

1. Unreleased checks of P30.941 million at year end and outstanding checks which have become stale of P0.114 million or totalling P31.055 million remained unadjusted in the books, thus, understating both the cash in bank and the corresponding liability accounts by the same amount.

2. Premium receivables stated at P516.016 million do not reconcile with the subsidiary ledger total of P460.976 million or a discrepancy of P55.040 million. We were unable to obtain sufficient appropriate audit evidence on the correctness of the account due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustment to the account was necessary.

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended that Management:

1.1 Instruct the Regional Manager of Region I to require: (a) the Cashier to submit monthly a list of unreleased checks to the Accountant; and (b) the Accountant to strictly follow the provisions of COA Government Accounting and Financial Management

Information System (GAFMIS) Circular Letter No. 2002-001 dated December 16, 2002 on the accounting treatment of unreleased and stale checks.

2.1 Require the Accounting Division to reconcile the General Ledger (GL), Subsidiary Ledger (SL) and Notes to Financial Statements for Premium Receivables account, effect the necessary corrections/adjustments to arrive at reconciled balances and submit the document(s) on the reconciliation of the account to the Audit Team for audit purposes.

The other significant observations and recommendations that need immediate action are as follows:

3. The correctness of the Retained Earnings account is doubtful due to unreconciled difference of P8.162 million between books/trial balance of P198.708 million and PCIC Automated Business System (PABS) Report of P190.546 million in the Underwriting Expenses of Regions I and VIII, recording of accrued indemnities in calendar year (CY) 2014 of P8.593 million as expense in CY 2015, and inclusion under Insurance Claims Payable/Accrued account of denied claims amounting to P8.815 million which should have been dropped from the books. Likewise, in Region I, claims for indemnities were not completely supported with appropriate supporting documents contrary to the provision of Section 4(6) of PD No. 1445.

3.1 We recommended and Management agreed to instruct the Regional Managers of Regions I and VIII to require the Accountants and concerned personnel at the Claims and Adjustment Department to reconcile their records regularly in order to come up with more reliable data, effect the necessary adjusting/correcting entries and require the submission of complete documents to prove the insurable interest of the farmer-beneficiary as a condition *sine qua non* for the payment of indemnity claim.

4. Certificates of Insurance Cover (CICs) issued in Region I with total face amount of P1.122 billion for various government premium subsidy programs, Region III with face amount of P9.656 million for Agrarian Production Credit Program (APCP), and Region IV with face amount of P91.912 million under the Department of Agriculture's (DA) Sikat Saka Program were not fully supported with the required documents contrary to the provisions of Section 4(6) of PD No. 1445; hence, CICs might not have been granted to the rightful beneficiaries.

4.1 We recommended and Management agreed to require the concerned Regional Managers to complete the required documentation and see to it that documents are duly/fully accomplished and free from any inconsistencies in areas, names and other pertinent data to ensure that insurance coverages are given to the rightful farmer-beneficiaries of the various PCIC programs.

5. In Region III, 164 farmer-beneficiaries availed of more than one insurance program in the same cropping season on the same farm lots; thus, resulting in the grant of double insurance aggregating to P1.163 million. Further, out of the 164 farmers, seven were paid indemnity claims for losses incurred in the same cropping season in the total amount of P111,811.

5.1 We recommended and Management agreed to revisit the existing rules and regulations on the grant of subsidized insurance premium to targeted beneficiaries to ensure that no double insurance is incurred and no double payment of deficiency claims is made to safeguard the funds granted by the National Government.

6. The actual expenditures for Underwriting Expenses exceeded the Corporate Operating Budget (COB) approved by the Department of Budget and Management (DBM) by P310.669 million contrary to Section 4(1) of PD No. 1445 and the conditions set forth by the DBM in the review and approval of PCIC's COB, thus making the transaction irregular.

6.1 We recommended and Management agreed to: (a) prepare a more accurate and realistic budget for expenses based on historical costs to avoid material unfavorable variance against actual expenses; and (b) limit the incurrence of expenditures within the DBM approved COB.

7. Reimbursement of medical expenses of the top officials of PCIC Head Office (HO) and Region VII in the total amount of P387,182 was not supported with budget approved by the DBM in violation of Section 4(1) of PD No. 1445, thus, considered irregular expenses.

7.1 We recommended that Management: (a) require the concerned officials to refund the amount reimbursed totaling P387,182 in CY 2015; and (b) discontinue the reimbursement of actual medical expenses of PCIC officials.

8. The existence, accuracy, and validity of the Property, Plant and Equipment (PPE) account cannot be established due to unreconciled book balance and inventory reports in Regions VIII and IX aggregating P0.533 million and non-reclassification of unserviceable properties in Regions IV, VI and XI totaling P0.550 million from PPE to Other Assets account. Meanwhile, the regularity of the procurement of vehicles in CYs 2014 and 2015 by the PCIC HO totaling P19.367 million is questionable in view of the absence of complete and appropriate documents as well as non-compliance with the pertinent provisions of Republic Act (RA) No. 9184.

8.1 We recommended that Management:

a. Instruct the Regional Managers of Regions IV, VI, VIII, IX and XI to: (i) require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property and undertake steps toward the disposal of all unserviceable and idle properties to generate income from the sale thereof, as required by Section 79 of PD No. 1445; (ii) direct the Accountant to prepare the necessary journal entries to reclassify unserviceable properties to Other Assets account and (iii) require the concerned Regional Accounting and Supply Offices to reconcile the PPE account balances and issue Acknowledgement Receipts for Equipment (AREs) to the persons having custody and control of the property;

b. Direct the Head of Finance Department to submit the original copies of the supporting documents, i.e., Certificates of Acceptance, Vehicle Sales Invoice (VSI) and Inspection Reports, etc. that were not submitted as well as documents submitted in Xerox/Photo copies;

c. Comply strictly with the guidelines on procurement under RA No. 9184 particularly on stages of procurement activities;

d. Require the person responsible for the conduct of inspection of deliveries to indicate the condition of items delivered as well as compliance with the specifications stated in the Supply Contract or Purchase Order; and

e. Submit a written explanation on the disparity in the number of bidders indicated in Bids and Awards Committee (BAC) Resolution No. 2014-017 dated April 28, 2014 and the Attendance Sheet on the opening of bids dated April 25, 2014 relative to the purchase of Hyundai Starex and on the inconsistencies on the VSI and Vehicle Delivery Receipt which were issued by non-winning bidder.

9. Various receivables accounts totaling P113.793 million remained dormant in the books for 17 to 40 years, since the borrowers were either deceased, have retired or their whereabouts could no longer be located; absence of Subsidiary Ledgers and complete documentation; and no request for write-off was made with the Commission on Audit (COA) for long outstanding accounts contrary to Section III of COA Circular No. 97-001.

9.1 We recommended and Management agreed to: (a) reconstruct secondary evidence to establish validity of the undocumented receivables; (b) re-examine collection strategies and implement them vigorously to enforce collection of dormant and long outstanding receivables; and (c) require the Finance Manager and concerned Regional Managers to comply with the requirements for request for write-off guided by the steps in the proper disposition/closure of dormant accounts as provided for under COA Circular No. 97-001 and Section 4 of the 2009 Revised Rules of Procedure of the COA.

10. The propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained due to absence of necessary information, i.e. date, delivery terms, payment terms, date of receipt by the supplier, among others. Likewise the POs were not submitted to COA within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009.

10.1 We recommended and Management agreed to require the Property Management & General Services Division (PMGSD) to: (a) ensure that all the necessary information are provided/indicated in the POs; (b) strictly comply with the provisions of COA Circular No. 2009-001 on the submission of POs to the Office of the Auditor; (c) observe due diligence in the preparation of the POs and assigning of number; and (d) define responsibilities that would provide adequate internal control and communicate clearly each responsibility and ensure that personnel are aware of their respective responsibilities.

11. The PCIC has successfully attained its target of providing free insurance coverage in the total amount of P478.016 million for CYs 2014-2015 to 263,610 farmer-beneficiaries in Regions VI, VII and VIII who were adversely affected by Typhoon Yolanda in consonance with the directive of the Office of the President under Memorandum Circular No. 59, Series of 2013, requiring the DA attached agencies to provide support to the victims of Typhoon Yolanda.

11.1 We recommended and Management agreed to sustain/further advance the positive results by increasing the number of insured farmers every year, through the roll out of more programs in partnership with other agencies that share the same purpose so as to make PCIC a viable service-oriented Agency protecting the marginal farmers and contributing in the growth of the agriculture industry.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 12, 2016 are discussed in detail in Part II of the report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

CLEOTILDE M. TUAZON
Cluster Director

Copy furnished:

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The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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The Secretary of the Department of Budget and Management
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Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

June 9, 2016

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor NIA Building A, NIA Complex
EDSA, Quezon City

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The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 12, 2016 are discussed in detail in Part II of the report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the report.

In our transmittal letter of even date, we request the President of PCIC to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt of the Report.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

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Cluster Director

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ANNUAL AUDIT REPORT

on the

PHILIPPINE CROP INSURANCE CORPORATION (PCIC)

For the Year Ended December 31, 2015

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Crop Insurance Corporation (PCIC) was created as a socially-oriented agency under Presidential Decree (PD) No. 1467 dated June 11, 1978, as amended by PD No. 1733 dated October 21, 1980 and Executive Order (EO) No. 708 dated July 27, 1981 and further amended by Republic Act (RA) No. 8175 which was enacted on December 29, 1995. Its principal mandate is to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers, against: a) crop losses arising from natural calamities such as typhoons, floods, droughts, earthquakes and volcanic eruptions as well as plant diseases and pest infestations; and b) non-crop agricultural asset losses due to perils for which the asset has been insured.

The PCIC's insurance programs consisted of regular and special insurance. Its regular insurance covers rice and corn crop insurance, high-value commercial crop insurance and non-crop agricultural asset insurance. On the other hand, its special insurance program covers livestock insurance and term insurance power packages.

The policy-making body of PCIC is the Board of Directors with the Secretary of Agriculture as the Chairman and the President of PCIC as the Vice–Chairman.

PCIC has 13 regional offices located nationwide and as at December 31, 2015 had a personnel complement of 209 regular, 373 under job order and 6 consultants.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2015	2014	Increase (Decrease)
Assets	3,068.275	3,189.179	(120.904)
Liabilities	1,303.081	1,556.808	(253.727)
Equity	1,765.194	1,632.371	132.823

II. Comparative Results of Operations

	2015	2014	Increase (Decrease)
Income (net of underwriting expenses)	423.357	581.666	(158.309)
Personal services	134.819	125.047	9.772
Maintenance and other operating and expenses	179.911	137.305	42.606
Financial expenses	0.127	5.988	(5.861)
Total expenses	314.857	268.340	46.517
Reserve for indemnity fluctuations	35.388	113.161	(77.773)
Net income	73.112	200.165	(127.053)

PCIC Corporate Operating Budget (COB) for Calendar Year (CY) 2015 amounted to P1,503.799 million.

III. Budget and Actual Expenditures

	COB Approved by DBM	Actual Expenses	Variance
Personal services	195.022	134.818	60.204
Maintenance and other operating expenses	180.842	171.972	8.870
Financial expenses	0.359	0.127	0.232
Capital outlay	108.187	7.645	100.542
Underwriting expenses	1,019.389	1,340.822	(321.433)
	1,503.799	1,655.384	(151.585)

SCOPE OF AUDIT

Our audit covering the accounts and operations of PCIC for CY 2015 was conducted on a test basis in accordance with International Standards on Auditing. Our audit was also made to assess the propriety of financial transactions and compliance of PCIC with laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements in view of the following:

1. Unreleased checks of P30.941 million at year end and outstanding checks which have become stale of P0.114 million or totalling P31.055 million remained unadjusted in the books, thus, understating both the cash in bank and the corresponding liability accounts by the same amount.

2. Premium receivables stated at P516.016 million do not reconcile with the subsidiary ledger total of P460.976 million or a discrepancy of P55.040 million. We were unable to obtain sufficient appropriate audit evidence on the correctness of the account due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustment to the account was necessary.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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8. The existence, accuracy, and validity of the Property, Plant and Equipment (PPE) account cannot be established due to unreconciled book balance and inventory reports in Regions VIII and IX aggregating P0.533 million and non-reclassification of unserviceable properties in Regions IV, VI and XI totaling P0.550 million from PPE to Other Assets account. Meanwhile, the regularity of the procurement of vehicles in CYs 2014 and 2015 by the PCIC HO totaling P19.367 million is questionable in view of the absence of complete and appropriate documents as well as non-compliance with the pertinent provisions of RA No. 9184.

8.1 We recommended that Management:

a. Instruct the Regional Managers of Regions IV, VI, VIII, IX and XI to: (i) require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property and undertake steps toward the disposal of all unserviceable and idle properties to generate income from the sale thereof, as required by Section 79 of PD No. 1445; (ii) direct the Accountant to prepare the necessary journal entries to reclassify unserviceable properties to Other Assets account and (iii) require the concerned Regional Accounting and Supply Offices to reconcile the PPE account balances and issue Acknowledgement Receipts for Equipment (AREs) to the persons having custody and control of the property;

b. Direct the Head of Finance Department to submit the original copies of the supporting documents, i.e., Certificates of Acceptance, Vehicle Sales Invoice (VSI) and Inspection Reports, etc. that were not submitted as well as documents submitted in Xerox/Photo copies;

c. Comply strictly with the guidelines on procurement under RA No. 9184 particularly on stages of procurement activities;

d. Require the person responsible for the conduct of inspection of deliveries to indicate the condition of items delivered as well as compliance with the specifications stated in the Supply Contract or Purchase Order; and

e. Submit a written explanation on the disparity in the number of bidders indicated in Bids and Awards Committee (BAC) Resolution No. 2014-017 dated April 28, 2014 and the Attendance Sheet on the opening of bids dated April 25, 2014 relative to the purchase of Hyundai Starex and on the inconsistencies on the VSI and Vehicle Delivery Receipt which were issued by non-winning bidder.

9. Various receivables accounts totaling P113.793 million remained dormant in the books for 17 to 40 years, since the borrowers were either deceased, have retired or their whereabouts could no longer be located; absence of SLs and complete documentation; and no request for write-off was made with the Commission on Audit (COA) for long outstanding accounts contrary to Section III of COA Circular No. 97-001.

9.1 We recommended and Management agreed to: (a) reconstruct secondary evidence to establish validity of the undocumented receivables; (b) re-examine collection strategies and implement them vigorously to enforce collection of dormant and long outstanding receivables; and (c) require the Finance Manager and concerned Regional Managers to comply with the requirements for request for write-off guided by the steps in the proper disposition/closure of dormant accounts as provided for under COA Circular No. 97-001 and Section 4 of the 2009 Revised Rules of Procedure of the COA.

10. The propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained due to absence of necessary information, i.e. date, delivery terms, payment terms, date of receipt by the supplier, among others. Likewise the POs were not submitted to COA within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009.

10.1 We recommended and Management agreed to require the Property Management & General Services Division (PMGSD) to: (a) ensure that all the necessary information are provided/indicated in the POs; (b) strictly comply with the provisions of COA Circular No. 2009-001 on the submission of POs to the Office of the Auditor; (c) observe due diligence in the preparation of the POs and assigning of number; and (d) define responsibilities that would provide adequate internal control and communicate clearly each responsibility and ensure that personnel are aware of their respective responsibilities.

11. The PCIC has successfully attained its target of providing free insurance coverage in the total amount of P478.016 million for CYs 2014-2015 to 263,610 farmer-beneficiaries in Regions VI, VII and VIII who were adversely affected by Typhoon Yolanda in consonance with the directive of the Office of the President under Memorandum Circular No. 59, Series of 2013, requiring the DA attached agencies to provide support to the victims of Typhoon Yolanda.

11.1 We recommended and Management agreed to sustain/further advance the positive results by increasing the number of insured farmers every year, through the roll out of more programs in partnership with other agencies that share the same purpose so as to make PCIC a viable service-oriented Agency protecting the marginal farmers and contributing in the growth of the agriculture industry.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2015, the unsettled balances of Notices of Suspensions and Disallowances amounted to P15.996 million and P12.972 million, respectively. There was no unsettled Notice of Charge at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 65 recommendations contained in the prior years' Annual Audit Reports (AARs), 25 were fully implemented, 33 were partially implemented and 7 were not implemented. Details are presented in Part III of this Report.

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C. PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor, NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **Philippine Crop Insurance Corporation (PCIC)**, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Bases for Qualified Opinion

Unreleased checks of P30.941 million at year end and outstanding checks which have become stale of P0.114 million or totalling P31.055 million remained unadjusted in the books, thus, understating both the cash in bank and the corresponding liability accounts by the same amount.

Premium receivables stated at P516.016 million do not reconcile with the subsidiary ledger total of P460.976 million or a discrepancy of P55.040 million. We were unable to obtain sufficient appropriate audit evidence on the correctness of the account due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustment to the account was necessary.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters discussed in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of **PCIC** as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

May 26, 2016

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **Philippine Crop Insurance Corporation (PCIC)** is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2015 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity for the year then ended. The financial statements have been prepared in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

NOMER D. VIRAY	**ATTY. JOVY C. BERNABE**
OIC, Finance Department	President

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(In Philippine Peso)

	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	3	440,336,060	685,678,496
Receivables - current	4	278,215,237	353,311,333
Other current assets	5	4,252,081	4,037,173
		722,803,378	1,043,027,002
Non-current assets			
Receivables - non-current, net	6	327,318,466	327,991,417
Financial investments held-to-maturity	7	1,964,529,053	1,764,529,053
Property and equipment, net	8	53,532,074	53,614,960
Other assets		92,221	16,280
		2,345,471,814	2,146,151,710
TOTAL ASSETS		**3,068,275,192**	**3,189,178,712**
LIABILITIES			
Current liabilities			
Accounts payable	9	310,027,177	357,132,688
Inter-agency payable	10	4,782,537	4,907,035
Other current liabilities	11	803,644	807,917
		315,613,358	362,847,640
Non-current liabilities			
Due to other national government agencies	12	17,555,839	68,061,488
Due to other funds	13	174,689	865,323
Deferred credits	14	346,860,433	354,899,108
Reserve for unearned premiums	15	622,876,731	770,134,064
		987,467,692	1,193,959,983
		1,303,081,050	1,556,807,623
EQUITY		1,765,194,142	1,632,371,089
TOTAL LIABILITIES AND EQUITY		**3,068,275,192**	**3,189,178,712**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2015
(In Philippine Peso)

	Note	2015	2014
INSURANCE PREMIUMS			
National government share	17	2,388,509,363	2,519,876,340
Farmers and institutions-traditional lines		200,995,995	217,848,838
Farmers & lending institutions (LIs)-term/life insurance		53,133,477	32,172,758
Farmers & LIs-non-crop insurance		6,453,621	6,756,522
Farmers & LIs-livestock insurance		14,925,841	13,377,583
Farmers & LIs-high value crops		12,860,120	21,862,660
Farmers & LIs-fisheries		1,033,670	1,374,617
		2,677,912,087	2,813,269,318
Add/(deduct): Premium reserve	16	104,498,867	(410,494,497)
Premium discount	20	(1,061,194,056)	(1,076,775,014)
Premium refund	18	(873,820)	(242,273)
NET PREMIUMS		1,720,343,078	1,325,757,534
UNDERWRITING EXPENSE			
Insurance benefits	19	1,298,639,814	737,231,499
Reinsurance premiums ceded treaty/facultative	21	1,120,926	804,833
Commission expense		36,760,699	46,769,772
Death benefits	22	3,300,000	1,684,534
Honoraria/incentive to claims adjuster		995,916	458,904
Honoraria/incentive to agricultural technician		4,902	4,812
		1,340,822,257	786,954,354
NET UNDERWRITING INCOME		379,520,821	538,803,180
Other income	25	43,836,790	42,863,572
GROSS OPERATING INCOME		423,357,611	581,666,752
OPERATING EXPENSES			
Personal services	23	134,818,526	125,046,978
Maintenance and other operating expenses	24	179,911,439	137,304,763
Financial expenses		127,151	5,988,615
		314,857,116	268,340,356
Net income before reserve for indemnity fluctuations		108,500,495	313,326,396
Less: Reserve for indemnity fluctuations	34	35,388,000	113,161,000
NET INCOME		**73,112,495**	**200,165,396**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2015
(In Philippine Peso)

	Note	2015	2014
CAPITAL STOCK			
Balance at beginning of year	26	1,350,954,415	1,350,954,415
Additional subscribed and paid-up		-	-
		1,350,954,415	1,350,954,415
Additional paid-in-capital	27	159,451,431	159,451,431
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year		8,804,243	(87,457,718)
Prior period adjustments	29	60,878,805	(3,820,737)
As restated		69,683,048	(91,278,455)
Dividends	35	(36,556,247)	(100,082,698)
Net income		73,112,495	200,165,396
Balance at end of the year	28	106,239,296	8,804,243
Reserve for indemnity fluctuations	34	148,549,000	113,161,000
EQUITY		**1,765,194,142**	**1,632,371,089**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
CASH FLOW STATEMENT
For the Year Ended December 31, 2015
(In Philippine Peso)

		2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income		356,893,467	715,041,744
Government premium share		1,300,000,000	1,183,771,000
Commission and other income		1,399,418	1,790,366
Payment of claims for insurance benefit		(1,298,639,814)	(737,231,499)
Operating expenses		(347,662,903)	(413,561,356)
Payment of dividends		(100,082,698)	-
Payment of accrued expenses - business and non-business lines accounts		7,957,379	(3,820,737)
		(80,135,151)	745,989,518
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in securities		(200,000,000)	(928,038,085)
Interest and dividends		42,409,484	41,071,082
Proceeds from disposal of assets		27,887	2,124
Acquisition of assets		(7,644,656)	(32,191,238)
		(165,207,285)	(919,156,117)
Net decrease in cash and cash equivalents		(245,342,436)	(173,166,599)
Cash and cash equivalents at beginning of year		685,678,496	858,845,095
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**440,336,060**	**685,678,496**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT EXPENDED
For the Calendar Year 2015
(In Philippine Peso)

	Corporate Operating Budget (COB)	**Actual Expenses**	**COB vs. Actual Expenses Under/(Over)**
Personal services			
Salaries & wages	105,883,170	80,776,778	25,106,392
Other compensation	33,193,530	29,799,137	3,394,393
Personnel benefits contributions	13,471,900	10,518,153	2,953,747
Other personnel benefits	42,473,190	13,724,458	28,748,732
	195,021,790	134,818,526	60,203,264
Maintenance and other operating expenses (MOOE)			
Professional expenses	78,577,721	76,995,835	1,581,886
Rent expenses	9,452,543	9,417,522	35,021
Advertising expenses	19,448,123	19,447,097	1,026
Training and scholarship expenses	6,579,846	6,574,951	4,895
Cultural and athletic expenses	225,708	195,756	29,952
Gender and development expenses	3,613,226	3,612,347	879
Traveling expenses	20,762,300	20,014,085	748,215
Utility expenses	5,807,120	5,728,476	78,644
Communication expenses	4,304,026	4,188,075	115,951
Supplies and materials expenses	5,939,312	5,907,210	32,102
Other MOOE	26,132,101	19,890,654	6,241,447
	180,842,026	171,972,008	8,870,018
Financial expenses	359,033	127,151	231,882
	181,201,059	172,099,159	9,101,900
Total operating expenses	376,222,849	306,917,685	69,305,164
Capital outlay	108,186,877	7,644,656	100,542,221
Underwriting expenses	1,019,389,041	1,340,822,257	(321,433,216)
	1,503,798,767	**1,655,384,598**	**(151,585,831)**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Philippine Crop Insurance Corporation (PCIC) is a Government-Owned and Controlled Corporation (GOCC) attached to the Department of Agriculture (DA). It was created as a social-oriented agency under Presidential Decree (PD) No. 1467 on June 11, 1978, as amended by PD No. 1733 on October 21, 1980 and Executive Order (EO) No. 708 dated July 27, 1981. It was further amended by Republic Act (RA) No. 8175 enacted on December 20, 1995. The address of PCIC's registered office is at 7th Floor Building A, National Irrigation Administration Complex, EDSA, Diliman, Quezon City.

Its mandate is to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers, against losses of their crops and non-crop agricultural assets arising from natural calamities (such as typhoons, floods, droughts, earthquakes and volcanic eruptions), plant pests and diseases, and/or other perils.

PCIC is an agricultural insurer committed to help stabilize the income of agricultural producers and promote the flow of credit in the countryside by:

a. Providing insurance protection to qualified farmers and other agricultural stakeholders against losses of their crops and produce, including their farm machineries and equipment, transport facilities and related infrastructure arising from natural calamities, pests and diseases, and other perils beyond their effective control; and

b. Extending innovative and client responsive insurance packages and other services thru people's organizations, including farmers' cooperatives, agricultural lenders and service providers.

PCIC has 13 Regional Offices (ROs) located nationwide and as at December 31, 2015, it had a personnel complement of 209 regular, 373 under job order and 6 consultants, details are as follows:

Office/RO	**Regular**	**Job Order/ Consultant**	**Total**
Head Office (HO)	50	21*	71
I	11	28	39
II	11	27	38
III	12	17	29
III-A	12	24	36
IV	12	34	46
V	13	19	32
VI	12	33	45
VII	13	38	51
VIII	11	49	60
IX	13	27	40
X	13	18	31
XI	12	18	30
XII	14	26	40
	209	**379**	**588**

*15 Job Orders, 6 Consultants

1.1 Regular Insurance Programs

a. Rice and Corn Crop Insurance

An insurance protection extended to farmers against losses in rice and corn crops due to natural calamities as well as plant pests and diseases.

b. High-Value Commercial Crop Insurance

An insurance protection extended to farmers against losses in high-value commercial crops due to natural calamities and other perils such as pests and diseases. High-value commercial crops include abaca, ampalaya, asparagus, banana, cabbage, carrot, cassava, coconut, coffee, commercial trees, cotton, garlic, mango, onion, papaya, peanut, pineapple, sugarcane, sweet potato, tobacco, tomato, white potato and others.

c. Non-Crop Agricultural Asset Insurance

An insurance protection extended to farmers against loss of assets on non-crop agricultural assets like warehouses, rice mills, irrigation facilities and other farm equipment due to perils such as fire and lightning, theft and earthquake.

d. Livestock Insurance

An insurance protection for livestock raisers against loss of carabao, cattle, swine, goat and poultry due to accidental death or diseases.

e. Term Insurance Packages (TIP)

An insurance protection that covers death, dismemberment, or disability of the borrower due to accident or natural causes.

Under the TIP, PCIC offers the following:

Loan Repayment Protection Plan – is an insurance protection that guarantees the payment of the face value or the amount of the approved agricultural loan upon the death or total permanent disability of the insured borrower.

Agricultural Producers Protection Plan – is an insurance protection that covers death of the insured due to accident, natural causes, and murder or assault.

Accident and Dismemberment Security Scheme – is an insurance protection that covers death or dismemberment or disablement of insured due to accident.

f. Fisheries Insurance

An insurance protection to fish farmers/fisherfolks/growers against losses in unharvested crop or stock in fisheries farms due to natural calamities and fortuitous events.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Corporation are as follows:

2.1 Basis of preparation

The accompanying financial statements of PCIC for the period ended December 31, 2015 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements.

PCIC is a going concern entity which financial statements have been prepared on accrual basis, except when stated otherwise, and in accordance with the historical cost convention. The presentation and classification of item in the financial statements shifted from New Government Accounting System (NGAS) to PFRS.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS/PAS

Under PAS 1, unless the financial statements comply with all the requirements of PFRS, they are not described as complying with PFRS/PAS. The PCIC's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

PAS 16 – Property, Plant and Equipment provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment with a cost that is significant in relation with the total cost of the item shall be depreciated separately. The depreciation charges for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

2.3 Changes in Accounting Policies

In the year 2011, there was a change in accounting policies, from NGAS to PFRS.

2.4 Summary of Significant Accounting Policies

a. Property and Equipment

Property and equipment (PE) account includes leasehold and leasehold improvements, office equipment, information technology equipment, furniture and fixtures, and transportation equipment. All PEs are shown at cost less accumulated depreciation. COA Circular No. 2005-002 dated April 14, 2005 entitled, "Accounting policy on items with serviceable life of more than one year but small enough to be considered as property, plant and equipment," sets the policy by which government assets may be categorized as PE and as Inventories.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in the income statement during the period in which they are incurred.

Depreciation on asset is calculated using the straight-line method to allocate the cost of the asset net of residual value of ten per cent of cost over its estimated useful life as prescribed under COA Circular No. 2003-007, "Revised estimated useful life in computing depreciation for government property, plant and equipment." The Circular was issued to provide policies and guidelines on the computation of depreciation of government property, plant and equipment and to provide useful lives, as follows:

Buildings	10-30 years
Office equipment, furniture and fixtures	5-10 years
Transportation equipment	7-10 years
Other property, plant and equipment	5 years

Depreciation is charged to operations on the month following the date of purchase.

Major repairs/renovations are depreciated over the remaining useful life of the related asset. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Corporation reviews the carrying amount of its tangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the difference is recognized in the income statement as an impairment loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement in the year of derecognition.

The effect of a change in accounting estimates shall be recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of change.

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in the future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

b. Financial Investments

Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

b.1 Held-to-maturity financial investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Corporation has the intention and ability to hold on to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The amortization is included in interest and similar income in the income statement.

An impairment loss is recognized in profit and loss when there is objective evidence that the asset is impaired. Those held-to-maturity financial investments with maturities in less than one (1) year are included in the current assets, and those with maturities greater than twelve (12) months after the balance sheet date are classified as non-current assets.

c. Impairment of assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. Impairment losses are recognized in the income statement in the period in which they were incurred.

Property and equipment were carried at cost less any accumulated depreciation and any impairment losses.

d. Provident Fund

PCIC has a Provident Fund for the benefit of its employees. The contribution made to the Fund is 20 per cent of the basic salaries of employees using the calendar year (CY) 1998 Salary Schedule.

e. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount determined after an evaluation of the estimated collectibility of receivable balances considering, among others, the age of accounts. The Agency's current practice is to provide an allowance of 10 per cent after two years when the account becomes past due, except for the guaranteed receivables.

f. Prepaid Expenses

Prepaid expenses particularly taxes on the short-term investments are amortized monthly until maturity of the short-term investments.

g. Reserve for Unearned Premiums

A reserve for unearned premiums is provided to cover premiums recorded but not earned as of the reporting date. This forms part of the liabilities.

Except for palay and corn insurance program, the amount to be set up is equal to 40 per cent of the net premiums written.

For palay and corn, required reserve is computed based on the following:

For production during the month of report	7/8
1st month preceding the date of report	5/8
2nd month preceding the date of report	3/8
3rd month preceding the date of report	1/8

h. Recognition of income

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

h.1 Income from Insurance Operations

Insurance premium is recognized as income upon the effectivity of the policy. The corresponding reinsurance, commission and service fees are deducted from gross revenues.

h.2 Income from investing activities

Incomes from short-term and long-term investments are recognized based on the accrual method of accounting net of the 20 per cent tax.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash on hand	1,677,356	1,745,916
Cash in bank-local currency		
Mother account	51,921,588	34,443,990
General and administrative fund	77,184,790	97,928,929
Claims fund	108,989,715	59,825,639
Investment fund	89,617	41,586,436
Marketable securities	200,472,994	450,147,586
	440,336,060	**685,678,496**

4. RECEIVABLES – CURRENT

This account consists of the following:

	2015	2014
Premium receivable	268,857,276	342,502,850
Interest receivable-bonds	8,055,364	6,551,008
Due from other funds - Special Revolving Trust Fund (SRTF)	1,302,597	4,257,475
	278,215,237	**353,311,333**

Premium receivable from:

	2015	2014
National government (NG)	200,351,819	233,446,927
Other lines	66,367,633	106,777,366
Lending institutions (LIs)	2,118,024	2,259,201
Farmers	19,800	19,356
	268,857,276	**342,502,850**

Premium Receivable-NG represents the amount of unreleased share of government in the total insurance premiums.

Due from other funds-SRTF – represents the amount collectible by PCIC for expenses incurred in connection with the implementation of the SRTF which is due for collection in CY 2015.

5. OTHER CURRENT ASSETS

This account includes the following:

	2015	2014
Inventories	2,249,838	1,658,424
Guarantee deposits	1,066,608	998,108
Prepaid rent	318,707	242,301
Other deposits	289,976	289,976
Prepaid insurance	220,003	194,069
Other prepaid expenses	106,949	29,502
Premium-bonds	-	624,793
	4,252,081	**4,037,173**

6. RECEIVABLES – NON – CURRENT

This account consists of the following:

	2015	2014
Premium receivable-arrearages NG	315,664,677	315,664,677
Guarantee receivable	51,972,343	51,980,843
Less: Allowance for doubtful accounts	51,972,343	51,980,843
	-	-
Special time deposit (STD) claims paid	43,582,755	43,582,755
Less: Allowance for doubtful accounts	43,582,755	43,582,755
	-	-
Claims paid, 3rd International Bank for Rural Development Project	85,511	85,511
Less: Allowance for doubtful accounts	85,511	85,511
	-	-
Adjudicated claims	3,724,229	3,724,229
Less: Allowance for doubtful accounts	3,724,229	3,724,229
	-	-
Other receivables	18,398,721	19,071,672
Less: Allowance for doubtful accounts	6,744,932	6,744,932
	11,653,789	12,326,740
	327,318,466	**327,991,417**

The premium receivable pertains to the cumulative premium subsidy arrearages from the NG when RA No. 8175 was enacted in CY 1995. This consists of unappropriated and/or unreleased government premium subsidy for policies written for the period from May 1, 1981 up to 1995. The receivable was programmed for payment by the NG within a period of ten years from CY 1996. The account also includes unpaid Government Premium Share from CYs 1996 to 2011.

Guarantee receivable refers to amounts due from banking institutions and lending conduits that extended production and production-related loans to small farmers.

PCIC was able to recover some of the receivables from both Guarantee and STD Claims paid. These recoveries came from the closed banks under liquidation by the Philippine Deposit Insurance Corporation (PDIC).

The Other receivables – non-current account consists of the following:

	2015	**2014**
Receivables/disallowances/charges	11,685,781	11,691,819
Pool of livestock insurers	367,620	367,620
Due from officers and employees	155,162	151,230
Advances to officers and employees	61,367	75,168
Others	6,128,791	6,785,835
	18,398,721	**19,071,672**

Receivables/disallowances/charges include amount due from public/private individuals/ entities for audit disallowances which have become final and executory.

The Other receivables – others account consists of the following:

	2015	**2014**
Other - miscellaneous	3,122,251	4,212,817
Claims on bank - unremitted recoveries	2,287,273	1,853,751
Due from banks	540,739	540,739
STD advances on claims	178,528	178,528
	6,128,791	**6,785,835**

One of the PCIC's business lines is Agricultural Guarantee. Under this program, the agricultural loans of farmers from the rural banks or lending institutions were guaranteed by PCIC using the Agricultural Guarantee Fund (AGF).

Claims on bank–unremitted recoveries account represents recoveries on guarantee loans not yet remitted by lending institutions.

Due from banks account represents excess payments made by PCIC to lending institutions under the guarantee program.

Other receivable miscellaneous account consists of the following:

	2015	2014
Others	1,820,969	1,256,637
Philippine Climate Change Adaptation Project (PhilCCAP)	635,638	2,050,163
Receivable lending institutions	336,744	318,544
Receivable on loan & educational support program of PCIC employees	270,596	193,650
Medical premium receivable	54,570	47,070
Receivable from SRTF	2,962	-
Receivable from UNDP	772	28,750
Premiums receivable - Department of Agriculture (DA)	-	318,003
	3,122,251	**4,212,817**

Bulk of the Other receivable miscellaneous - others account is the long outstanding premium receivables from farmers.

7. FINANCIAL INVESTMENT HELD-TO-MATURITY - NON-CURRENT

This account represents investments in the following:

	2015	2014
Investment in bonds –Land Bank of the Philippines (LBP)	1,512,519,401	1,512,519,401
Investment in bonds –Bureau of the Treasury (BTr)	449,893,952	249,893,952
Asia Pacific Rural and Agricultural Credit Association (APRACA)	1,500,000	1,500,000
Cooperative Insurance System of the Philippines (3,000 shares @ P100)	300,000	300,000
Philippine Long Distance Telephone Company 10,140 shares @ P10 per share	173,200	173,200
Club Filipino	100,000	100,000
Pool of livestock insurers	40,000	40,000
Eastern Visayas Telephone Company, Inc. 50 shares @ P50 per share	2,500	2,500
	1,964,529,053	**1,764,529,053**

P94,625,000 - Investment in LBP FXTN with term of 5.45 years at 7.0 per cent interest rate will mature on January 27, 2016.

P99,895,992 - Investment in LBP FXTN with term of 1.88 years at 1.625 per cent interest rate will mature on April 25, 2016.

P149,845,026 - Investment in LBP FXTN with term of 1.88 years at 1.625 per cent interest rate will mature on April 25, 2016.

P99,896,485 - Investment in LBP FXTN with term of 1.30 years at 1.625 per cent interest rate will mature on April 25, 2016.

P389,750,268 - Investment in LBP FXTN with term of 4.54 years at 2.125 per cent interest rate will mature on May 23, 2018.

P429,999,695 - Investment in LBP FXTN with term of 4.40 years at 2.125 per cent interest rate will mature on May 23, 2018.

P48,717,045 - Investment in LBP FXTN with term of 4.10 years at 2.125 per cent interest rate will mature on May 23, 2018.

P99,894,494 - Investment in LBP FXTN with term of 3.95 years at 2.125 per cent interest rate will mature on May 23, 2018.

P99,895,396 - Investment in LBP FXTN with term of 3.38 years at 2.125 per cent interest rate will mature on May 23, 2018.

P50,000,000 - Investment in BTr Bonds with term of 5.5 years at 3.125 per cent interest rate will mature on May 5, 2019.

P200,000,000 - Investment in BTr Bonds with term of 5.5 years at 3.725 per cent interest rate will mature on April 9, 2021.

P100,000,000 - Investment in BTr Retail Treasury Bonds (RTB) 13 with term of 10 years at 7.375 per cent interest rate and will mature on March 3, 2021.

P99,893,952 - Investment in BTR RTB 10-4 with term of 9.16 years at 3.25 per cent interest rate will mature on August 15, 2023.

The fair values of investments to APRACA Trust Development Fund, Cooperative Insurance System of the Philippines, Pool of Livestock Insurers, and Eastern Visayas Telephone Company, Inc. are not available because these are not publicly-listed companies.

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Building	Information technology equipment & software	Land transport-ation	Furniture and fixtures, office equipment and other PE	Leasehold & leasehold improve-ment	Total
Cost:						
January 1, 2015	-	23,789,931	44,010,585	15,604,350	9,545,301	92,950,167
Additions	364,001	3,916,930	1,518,401	1,744,956	100,368	7,644,656
Disposal/transfer/ adjustments	-	(80,812)	(955,764)	(312,019)	(299,835)	(1,648,430)
Dec. 31, 2015	364,001	27,626,049	44,573,222	17,037,287	9,345,834	98,946,393
Accumulated depreciation:						
January 1, 2015	-	8,854,966	17,066,429	9,366,645	4,047,167	39,335,207
Amortization/depreciation	-	2,401,996	3,685,364	1,441,423	410,648	7,939,431
Disposal/transfer/ adjustments	-	(567,014)	(824,970)	(490,774)	22,439	(1,860,319)
Dec. 31, 2015	-	10,689,948	19,926,823	10,317,294	4,480,254	45,414,319
Net book value, Dec. 31, 2015	**364,001**	**16,936,101**	**24,646,399**	**6,719,993**	**4,865,580**	**53,532,074**
Net book value, Dec. 31,2014	**-**	**14,934,965**	**26,944,156**	**6,237,705**	**5,498,134**	**53,614,960**

9. ACCOUNTS PAYABLE

This account consists of the following:

	2015	2014
Business lines	237,204,788	195,313,656
Non-business lines	72,822,389	161,819,032
	310,027,177	**357,132,688**

9.1 The Accounts payable – business lines account consists of the following:

	2015	2014
Crops	186,878,934	157,306,168
High value commercial crop (HVCC)	47,223,504	32,912,687
Livestock	1,628,440	2,400,830
Term insurance	1,124,910	272,826
Death benefit	250,000	50,000
Non-crop	99,000	2,100,155
Fisheries	-	270,990
	237,204,788	**195,313,656**

9.2 The Accounts payable – non-business lines account consists of the following:

	2015	2014
Dividends payable	36,556,247	100,082,698
Others	18,767,981	24,423,910
Accrued expenses	9,396,180	21,034,524
Return premium payable	5,296,273	3,748,273
Provident fund	2,138,350	558,632
Creditors	667,358	11,970,995
	72,822,389	**161,819,032**

The Accounts payable – non-business lines – others consists of the following:

	2015	2014
Others	9,993,754	11,778,875
Premium over-remittance	3,894,292	2,173,219
Bidder's bond payable	836,638	836,638
Due to solicitors/creditors	550,653	1,649,553
Stale checks	416,697	-
PhilCCAP	276,708	-
Service fee payable	2,289,580	7,483,832
Trust liabilities ACPC	478,791	478,792
Employee association	27,664	19,319
National Home Mortgage Finance Corporation (NHMFC)	3,204	3,682
	18,767,981	**24,423,910**

10. INTER-AGENCY PAYABLE

This account consists of the following:

	2015	2014
Due to Bureau of Internal Revenue (BIR)	3,051,584	3,276,212
Due to Government Service Insurance System (GSIS)	1,390,097	1,386,709
Due to Home Development Mutual Fund (HDMF)	120,745	138,746
Due to Philippine Health Insurance Corporation (PHIC)	112,553	105,368
Due to Local Government (fire and other taxes)	107,558	-
	4,782,537	**4,907,035**

11. OTHER CURRENT LIABILITIES

This account consists of the following:

	2015	2014
Guarantee deposits payable	365,851	365,851
Due to officers and employees	227,785	242,243
Due to other Local Government Units (LGUs)	210,008	199,823
	803,644	**807,917**

12. DUE TO OTHER NATIONAL GOVERNMENT AGENCIES (NGAs)

This account consists of the following:

	2015	2014
Others	17,555,839	8,217,476
Commission on Audit (COA)	-	59,844,012
	17,555,839	**68,061,488**

13. DUE TO OTHER FUNDS

This consists of the following:

	2015	2014
Trust liabilities - Comprehensive Agricultural Loan Facility (CALF)	96,351	461,205
Special Revolving Trust Fund (SRTF)	78,338	87,100
Other liabilities - Agricultural Guarantee Fund (AGF)	-	317,018
	174,689	**865,323**

Trust liabilities – CALF account is a temporary account lodged at the Regional Offices (ROs), debited for cash receipts initially identifiable as for the CALF program, but the proper account to credit cannot yet be identified until supporting papers accompanying the remittance have been processed, after which entries against this account are reversed (credited).

14. DEFERRED CREDITS

This account represents fees received from lending institutions and farmers whose application for insurance coverage are in process, held in abeyance as well as deficiencies in guarantee fee remittances. This account is also credited for the booked disallowance on the nine per cent interest on car plan.

This includes the following:

	2015	**2014**
Deferred premium income	307,801,487	304,148,599
Deferred premium payable	31,801,995	42,821,965
Deferred credits-nine per cent interest on car plan	7,098,169	7,098,169
Deferred credits - gain on valuation of securities	147,800	147,800
Others	10,982	682,575
	346,860,433	**354,899,108**

15. RESERVE FOR UNEARNED PREMIUMS

This represents the statutory legal reserve required for all unexpired risks of PCIC. This consists of the following:

	2015	**2014**
Crop	382,936,209	562,354,927
Livestock	129,444,948	52,705,721
HVCC	62,789,977	121,834,227
Term insurance	37,453,915	26,775,358
Non-crop	8,313,298	5,546,822
Fisheries	1,938,384	917,009
	622,876,731	**770,134,064**

16. PREMIUM RESERVE

This account is a contra account of the Insurance Premiums and it is used to increase or decrease the statutory legal reserve for unexpired risks of PCIC or the Reserve for Unearned Premium account in the statement of financial position, depending on the required reserve for the period. When the balance of the reserve is more than the required for the period, Premium Reserve is credited, therefore, increasing the Premiums Earned, but when the balance of reserve is less than the required, Premium Reserve is debited which decreases the Premiums Earned. The required reserve is computed every month using the formula as provided in the operations manual.

17. GOVERNMENT PREMIUM SHARE (GPS)

This represents the share of the National Government (NG) in the premiums. Insurance premiums for palay and corn are being shared by the farmers, lending institutions and the government. The premium rating and the corresponding share of the NG was approved by the President of the Philippines.

For the year 2015, the approved GPS amounted to P1.300 billion representing 100 per cent cost of insurance premium of farmers listed under the Registry System for Basic Sectors in Agriculture (RSBSA).

18. PREMIUM REFUND

This account represents premiums returned to assured farmers and/or lending institutions arising from insurance cancellations.

19. INSURANCE BENEFITS

This represents losses/claims paid for the period amounting to P1.299 billion as follows:

Insurance Lines	**2015**	**2014**
Regular lines (palay and corn)	1,191,235,817	648,656,371
High value	77,624,683	60,216,782
Livestock	16,997,942	9,584,380
Term	8,727,594	6,244,253
Non-crop	2,243,488	11,808,219
Fisheries	1,810,290	721,494
	1,298,639,814	**737,231,499**

20. PREMIUM DISCOUNT

This represents amount of premium discounts granted to assured farmers/lending institutions/government in accordance with PCIC policy.

	2015	**2014**
Farmers	1,061,194,056	14,492,206
National government (NG)	-	1,061,535,711
Lending institutions (LIs)	-	747,097
	1,061,194,056	**1,076,775,014**

21. REINSURANCE PREMIUMS CEDED TREATY/FACULTATIVE

This represents premium on outward cessions under treaty/facultative agreement with reinsurers.

22. DEATH BENEFITS

This is a built-in death benefit component of the insurance package for rice and corn assured farmers who may suffer death within the term of coverage; provided said farmer is not more than 65 years of age at the inception of insurance.

23. PERSONAL SERVICES

This account consists of the following:

	2015	2014
Salaries and wages	80,776,778	75,687,598
Other compensation	29,799,137	22,350,728
Other personnel benefits	13,724,458	17,575,616
Personnel benefits contribution	10,518,153	9,433,036
	134,818,526	**125,046,978**

24. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account consists of the following:

	2015	2014
Professional expenses	76,995,835	52,495,390
Traveling expenses	20,014,085	15,997,321
Other MOOE	19,890,654	17,711,296
Advertising and promotional expenses	19,447,097	17,576,028
Training and scholarship expenses	6,574,951	3,394,317
Rent expenses	9,417,522	7,553,984
Depreciation expenses	7,939,431	5,797,901
Supplies and material expenses	5,907,210	5,242,295
Utility expenses	5,728,476	4,963,619
Communication expenses	4,188,075	3,401,641
Gender and development expenses	3,612,347	2,915,556
Cultural and athletic expenses	195,756	255,415
	179,911,439	**137,304,763**

The Other MOOE account is broken down as follows.

	2015	2014
Others	4,207,624	1,837,000
Representation expenses	4,166,555	3,642,291
Repairs and maintenance	3,464,488	3,138,552
Fuel, oil, and lubricant expenses	3,205,392	3,612,958
Extraordinary and miscellaneous expenses	1,972,550	2,292,414
Council/board members/directors' allowance	1,466,000	1,526,000
Insurance expenses	315,690	436,577
Honoraria	297,167	237,000
Fidelity bond premiums	282,607	265,228
Delivery expenses	197,325	189,091
Subscription expenses	130,214	130,323
Licenses	84,617	74,975
Taxes and duties	55,219	294,187
Donations	25,506	13,700
Membership dues and contribution to organization	19,700	21,000
	19,890,654	**17,711,296**

25. OTHER INCOME

This account consists of the following:

	2015	2014
Interest income -		
Bonds	39,301,846	38,557,666
Deposit with local banks	3,107,639	2,513,416
Gain on sale of assets	27,887	2,123
Miscellaneous	1,399,418	1,790,367
	43,836,790	**42,863,572**

26. CAPITAL STOCK

Under RA No. 8175, authorized Capital Stock of PCIC increased from P750 million to P2 billion divided into 15 million common shares each with a par value of P100 for government subscription, and five million preferred shares also with a par value of P100 per share.

As of December 31, 2015, the Corporation's paid-up capital stood at P1.351 billion. This consists of 12,509,544 shares of common stock with a par value of P100 per share subscribed by the National Government and one million shares of preferred stock with a par value of P100 per share subscribed by the Land Bank of the Philippines (LBP).

27. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital of P159,451,431 represents the amount by which the assets (mostly receivables of the Agricultural Guarantee Fund net of valuation reserves) exceeded the P150 million initial contribution of the government to the capital of the Corporation.

28. RETAINED EARNINGS UNAPPROPRIATED

	2015	2014
Balance at beginning of year	8,804,243	(87,457,718)
Prior years' adjustments	60,878,805	(3,820,737)
As restated	69,683,048	(91,278,455)
Dividends	(36,556,247)	(100,082,698)
Net income	73,112,495	200,165,396
Balance at end of year	**106,239,296**	**8,804,243**

29. PRIOR PERIOD ADJUSTMENTS

This account consists of the following:

Particulars	Amount
Losses-direct business	59,559,815
Premium reserve	42,240,164
Others	3,576,842
Honoraria	1,180,929
Trust liability-premium	1,149,581
Insurance claims payable	822,250
Other payable-others	714,722
CALF recoveries	433,522
Commission expense	(1,327,162)
Premium discount	(47,471,858)
	60,878,805

30. RECLASSIFICATION OF ACCOUNTS

Some accounts were reclassified due to the adoption of NGAS revised Chart of Accounts per COA Circular Nos. 2004-002 dated April 29, 2004 and 2004-008 dated September 20, 2004. The Insurance premium account in the income statement (statement of comprehensive income) was later adopted/included in the revised Philippine Government Chart of Accounts with account description that was covered by a Memorandum dated January 23, 2007 by the then COA Government Accountancy and Financial Management Information System (GAFMIS) Sector.

31. PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT (PHILCCAP)

On June 29, 2012, PCIC received funds amounting to P4,191,000 to be used for the implementation of the Philippine Climate Change Adaptation Project (PhilCCAP), a pilot grant project funded by the World Bank which aims to develop and demonstrate approaches that will enable targeted communities to adapt to the potential impacts of climate variability and change in the Philippines.

The PCIC will provide and maintain accounting and financial records for PhilCCAP funds transferred separate from its regular books of accounts, which shall be made available for inspection by the DA officials, its COA Auditor and authorized representatives of World Bank.

The PCIC will be in-charge in pilot testing the feasibility study of weather index-based crop insurance. As of December 31, 2015, the total expenses incurred in the implementation of the program is P6,920,158, broken down as follows:

Particulars	Amount
Agricultural expenses	2,172,520
Professional and technical expenses	870,355
Other MOOE	851,010
Traveling expenses	704,628
Representation	633,728
Materials and office supplies	619,107
Depreciation expense	561,013
Other agricultural supplies	248,000
Training expenses	135,000
Communication and postage	77,820
Fuel and lubricants	35,460
Internet expense	7,613
Repairs and maintenance	2,364
Delivery expense	990
Bank charges	550
	6,920,158

32. COA SUSPENSIONS AND DISALLOWANCES

As of December 31, 2015, the balances of audit suspensions and disallowances are P15,995,937 and P11,685,781, respectively. The bulk of the disallowances are the nine per cent interest charged to the Car Plan Loan.

33. COMPLIANCE WITH REVENUE REGULATION (RR) NO. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

The PCIC is a non-VAT registered Corporation engaged in the business of Crop Insurance. It is exempted from all kinds of taxes. This is in accordance with Section 16 of PD No. 1467, the law creating the PCIC.

Other taxes and licenses:

		Amount
a.	Local	
	Mayor's permit	14,304
	Community tax	2,000
	Motor vehicle registration	84,270
b.	National	
	Taxes on interest income	22,554
	Documentary stamp and premium tax	4,535,282
	Bureau of Internal Revenue - annual registration	500
		4,658,910

The amount of withholding taxes paid/accrued for the year amounted to:

	Amount
Tax on compensation and benefits	13,066,509
Creditable withholding taxes	5,705,263
Final withholding taxes	2,993,595
	21,765,367

34. RESERVE FOR INDEMNITY FLUCTUATIONS

Portion of the income is reserved in anticipation of future variations in the insurance claims payment

	Amount
Beginning Balance:	113,161,000
Add: Provision for the year	35,388,000
Less: Application for the year	-
	148,549,000

35. DIVIDENDS TO THE NATIONAL GOVERNMENT

For the year 2015, PCIC declared dividends to the National Government (NG) amounting to P36,556,247 representing the 50 per cent of the year's Income. In CY 2014, PCIC declared dividends to NG in the amount of P100,082,698 which was remitted to the Bureau of the Treasury (BTr) per Official Receipt No. 8202188 dated March 30, 2015.

In the years 2012 and 2013, PCIC registered net income of P142.940 million and P555.727 million respectively but did not declare dividends due to the negative retained earnings of P632.919 million in CY 2012 and P87.458 million in CY 2013. PCIC requested exemption from the Department of Finance (DOF) to declare dividends in CYs 2012 and 2013 citing Section 5(f) of the Implementing Rules and Regulations of RA No. 7656 which states "*GOCCs with net income but have negative retained earnings may be exempt from declaring and remitting dividend upon proper submission to the Secretary of Finance of a request for exemption*." Up to this writing, PCIC is still waiting for the DOF response to its request.

PART II – OBSERVATIONS AND RECOMMENDATIONS

1. The non-collection of Premium receivables from the National Government (NG) which already accumulated to P516.016 million from calendar years (CYs) 1981 to 2015 might impede the Philippine Corp Insurance Corporation (PCIC) from attaining fully its mandate and execute its strategies as provided under Republic Act (RA) No. 8175. Likewise, the Premium receivables account of P516.016 million indicated in the Notes to Financial Statement (FS) is not reconciled with the amounts indicated in the General Ledger (GL) of P515.791 million and Subsidiary Ledger (SL) of P460.976 million or discrepancies of P0.225 million and P55.040 million, respectively, due to lack of documentation, thus casting doubt on the reliability of the Premium Receivables account as at year-end.

1.1. The PCIC is a government-owned and controlled corporation (GOCC) created by virtue of Presidential Decree (PD) No.1467 (June 11, 1978), as amended by PD No. 1733 (October 21, 1980) and further amended by RA No. 8175 (December 29, 1995). It is the Implementing Agency of the government's agricultural insurance program. PCIC is an attached Corporation of the Department of Agriculture (DA), with principal mandate of providing insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of their palay and corn crops as well as other crops.

1.2. Sections 6.1 and 6.2 of PD No.1467 provides that:

For the first year of the operation of the Corporation, the required Government premium subsidy, as determined by the Board and approved by the President of the Philippines, shall be deemed appropriated from the funds of the National Treasury not otherwise appropriated, and shall be drawn, on a month-to-month or other periodic bases, depending upon the actual amount of insurance underwritten by the Corporation. For this purpose, the Corporation shall bill the Government the sum of money corresponding to the computed amount of subsidy.

For subsequent years, yearly projections of the premium subsidy shall be submitted by the Corporation to the President of the Philippines, and upon his approval shall be included in the government budgetary appropriations.

1.3. The journal entries to record Premium Receivables are presented in Table 1.

Table 1 - Journal Entries for Premium Receivables in HO and RO Books

HO Books			RO Books		
RSBSA Production					
Premium Receivables - NG	xx		Due from HO	xx	
Due to RO		xx	Gross Premium Receivable		xx
Release of Premium Subsidy by DBM to PCIC			*no entry*		
Cash	xx				
Premium Receivables - NG		xx			

HO Books			RO Books		
Transfer of Budget from HO to RO					
Due to RO	xx		Cash	xx	
Cash		xx	Due from HO		xx
Recording of Premium Discount					
Premium Discount - Farmer's Share	xx		*no entry*		
Premium Receivables - NG		xx			

RSBSA – Registry System for Basic Sectors in Agriculture
DBM – Department of Budget and Management

1.4. Usually the Government Premium Subsidy (GPS) under the General Appropriations Act (GAA) is lower than the Premium Receivable per Actual Production or actual amount of insurance underwritten by the Corporation (RSBSA), thus PCIC requests the DBM the release of the amount by including the same in the PCIC Corporate Operating Budget (COB) submitted to the latter.

1.5. Upon verification of the Financial Statements (FS) of PCIC, the Premium Receivable from the NG as of December 31, 2015 amounted to P516.016 million consisting of the following:

a. P200.351 million for the insurance premium share due from the NG from CY 2009 to present *[Note 4 of the Notes to FS)*;

b. P168.758 million for the balance of the cumulative premium subsidy arrearages from the NG when RA No. 8175, known as the Revised Charter of PCIC, was enacted in CY 1995. This consists of unappropriated and/or unreleased government premium subsidy for policies written for the period from May 1, 1981 up to CY 1995. The receivable was programmed for payment by the NG within a period of ten years from CY 1996 *[Note 6 of the Notes to FS*]; and

c. P146.907 million representing the accumulated uncollected Premium Receivable-NG for CYs 1996 to 2008 *[Note 6 of the Notes to FS]*.

1.6. The Premium receivables from NG represent the accumulated unpaid/unreleased GPS every year. The required GPS under RA No. 8175 (RSBSA) is based on PCIC's Actual Production or the number of farmers covered with insurance. However, verification of the SL maintained by PCIC disclosed that the Unreleased/Unpaid GPS per Actual Production only amounted to P460.976 million or lower by P55.040 million than the amount indicated in the Notes to FS of P516.016 million as shown in Table 2.

Table 2 – Unreleased/Unpaid GPS - Premium Receivable per SL vis-à-vis per Notes to FS

Year	Premium Receivables per SL	Premium Receivable per Notes to FS	Difference (Absolute figure)
1981 to 1995	P 168,758,495	P 168,758,495	P -
1996 to 2008	146,906,182	146,906,182	-
2009 to 2015	145,311,464	200,351,819	55,040,355
	P 460,976,141	**P 516,016,496**	**P 55,040,355**

1.7. Further, verification of the GL for Premium receivables disclosed a balance of P515.791 million as shown in Table 3. Thus, there were discrepancies of P54.815 million and P0.225 million between the GL and SL and GL and Notes to FS, respectively. Management informed that the discrepancies were due to unrecorded balances from different programs of PCIC; however, the Team was precluded to verify the cause(s) of the discrepancies due to lack of documents.

Table 3 – Premium Receivable per GL

	Amount	Total
Current Premium Receivable		
Premium Receivable-Crop-Palay-NG	110,195,005	
Premium Receivable-Crop-Corn-NG	89,931,356	*200,126,361
Premium Receivable Arrearages		
Other Long Term Receivables-NG-Corn Arrearages	139,043,366	
Other Long Term Receivables-NG-Palay Arrearages	29,715,130	168,758,495
Long Term Premium Receivable		
Other Receivable-Long Term-NG-Corn	130,848,349	
Other Receivable-Long Term-NG-Palay	16,057,833	146,906,182
		**315,664,677
		515,791,038

* *Per Note 4 of Notes to Financial Statements – P200,351,819 or a difference of P225,458 from the GL*
*** Per Note 6 of Notes to Financial Statements*

1.8. Section 12 of the Manual on the New Government Accounting System (MNGAS), Volume II states that:

> *Subsidiary Ledger (SL). The SL is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL. Postings to the SL generally come from the source documents. Xxx. <u>The totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.</u> Schedules shall be prepared periodically to support the corresponding controlling GL accounts.* (Underscoring supplied for emphasis)

1.9. In view of the discrepancies noted in the amounts in the Notes to FS, GL and SL the reliability of the Premium Receivables account totaling P516.016 million could not be ascertained.

1.10. Notwithstanding the discrepancies noted in recording the Premium Receivables account, the Team would like to point out that in CY 2015, the budget per GAA for GPS amounted to P1.300 billion, while PCIC's Actual Production amounted to P1.380 billion or higher by P80 million.

1.11. Thus, if Management will not take necessary steps to address the problem of collecting the accumulated outstanding Premium receivables from the NG, PCIC would be exposed to fund availability and liquidity risks, since insufficient access to fund threatens the Corporation's capacity to grow, execute its strategies and achieve its objectives and mandate. Further, there is a risk that PCIC may not be able to pay claims for indemnity of the assured farmers in the future due to lack of funds. On the other hand, the outstanding receivables, if collected, could be used by PCIC to expand its operations in providing insurance protection to a large number of farmers and fisherfolks, especially, those who were hardly hit by the worsening weather conditions of the country because of the adverse effects of climate change and global warming.

1.12. **We recommended that Management:**

a. Request the DBM to release to PCIC the unpaid premium share of the NG based on the required GPS per Actual Production; and

b. Require the Accounting Division to reconcile the GL, SL and Notes to FS for Premium Receivables account, effect the necessary corrections/ adjustments to arrive at reconciled balances and submit the document(s) on the reconciliation of the account to the Audit Team for audit purposes.

1.13. Management commented that it will continue to include the Receivable from NG in its yearly budget proposal to DBM and to retain the provision "*Any savings realized from the current subsidy will be applied to the payment of premium arrearages"* in the proposed Special Provision in the GAA. As to the unreconciled GL and SL balances, Management informed that they had already implemented the necessary adjustments.

1.14. As a rejoinder, the Audit Team appreciates Management effort to implement the recommendations; however, the Journal Entry Voucher (JEV) and its supporting schedule/working paper relative to the reconciliation of the GL and SL balances of the Premium Receivable account is not yet submitted to the Team for verification.

2. The correctness of the Retained Earnings account is doubtful due to unreconciled difference of P8.162 million between books/trial balance of P198.708 million and PCIC Automated Business System (PABS) Report of P190.546 million in the Underwriting Expenses of Regions I and VIII, recording of accrued indemnities in CY 2014 of P8.593 million as expense in CY 2015, and inclusion under Insurance Claims Payable/Accrued account of denied claims amounting to P8.815 million which should have been dropped from the books. Likewise, in Region I, claims for indemnities were not completely supported with appropriate supporting documents contrary to the provision of Section 4(6) of PD No. 1445.

2.1 The Underwriting expenses - losses – direct business account represents the amount of actual indemnities paid or payable by PCIC for insurance claims. On the other hand, the PABS embodied all insurance transactions from underwriting up to claims settlement for all Business Lines or Product Lines. It generates reports, among others, Report of Approved Claims. Thus, the PABS serves as SL to Underwriting expenses losses – direct business account.

2.2 Upon review, the Underwriting expenses losses – direct business in Region I amounting to P158.302 million was higher by P4.215 million compared with the generated Report of PABS of P154.087 million which consisted of actual indemnities paid of P100.172 million and accrued indemnity claim of P53.915 million. Likewise, In Region VIII, the indemnity paid per Trial Balance in the amount of P40.406 million differed by P3.947 million from the Schedule of Indemnity Payment (generated from PABS) of P36.459 million, thus, the reliability of the Underwriting expenses account is doubtful.

2.3 In Region I, it was also noted that the actual indemnities paid in CY 2015 included indemnities accrued for CY 2014 in the amount of P8.593 million which was recorded as debit to expense account instead of a debit to accrued expense payable, thus overstating the expenses and understating the Retained Earnings at year-end.

2.4 Further, in Region I, the Insurance Claims Payable/Accrued account included denied claims amounting to P8.815 million. Insurance Claims Payable/Accrued refers to the claim of insured farmers who have sent a notice of loss but have not yet completed the documentary requirements. In contrast, the denied claims connote claims that have been disallowed by PCIC for some reasons; hence, the amount should be dropped from the books. Since the amount was not taken out from the books, the Insurance Claims Payable/Accrued account was overstated by P8.815 million while the Retained Earnings was understated by the same amount.

2.5 Section 4(6) of PD 1445 states that "*Claims against government funds shall be supported with complete documentation.*"

2.6 Applicable PCIC rules and regulations require the following documents upon application of cover from insurance or claim for indemnity:

Individual Borrowing Farmer

- Application for Production Loan (APL) which also serves as application for crop insurance.
- Farm Plan and Budget (FPB) – showing schedule of farm activities, e.g., date of planting and harvest, etc.
- Location Sketch Plan (LSP)/Control Map (CM) – showing landmarks and names of adjoining lot owners.

Farmers Borrowing as a Group

- List of Borrowers (LOB) – containing the names and addresses of the borrowers, the farm area, location, planting schedules, variety, amount of loan and signatures of borrowers.
- Standard FPB
- CM

Self-financed Farmer

- Application for Crop Insurance (ACI)
- FPB
- LSP/CM

2.7 In Region I, the above documents were not submitted to support the claims for indemnity. Thus, the practice of non-submission of any documentary requirement to prove the insurable interest of any claimant is an indication of weak internal control over indemnity claims which if not addressed might be abused.

2.8 **We recommended and Management agreed to instruct the Regional Managers of Regions I and VIII to require the Accountants and concerned personnel at the Claims and Adjustment Department to reconcile their records regularly in order to come up with more reliable data, effect the necessary**

adjusting/correcting entries and require the submission of complete documents to prove the insurable interest of the farmer-beneficiary as a condition *sine qua non* for the payment of indemnity claim.

3. In Region I, unreleased checks of P30.941 million and outstanding checks which have become stale of P0.114 million or totalling P31.055 million remained unadjusted in the books contrary to COA Government Accounting and Financial Management Information System (GAFMIS) Circular Letter No. 2002-001 dated December 16, 2002; thus, understating the cash in bank account and the corresponding liability account in the financial statements at year end.

3.1 COA GAFMIS Circular Letter No. 2002-001 dated December 16, 2002, re: Modification in the Preparation of the Report of Checks Issued (RCI) and Additional Guidelines in Recording and Reporting of Checks Disbursements provides, *viz*.:

> *At the end of each month, a Schedule of Unreleased Checks shall be prepared by the Cashier for submission to the Accounting Unit. Based on this Schedule, a working paper entry shall be prepared to restore the amount of cash equivalent to the total amount of unreleased xxx. (Section 2.3)*
>
> *At the end of the year, the same procedures under item 2.3 shall be done except that a JEV shall be prepared to record the entry for the restoration of cash equivalent to the unreleased checks and recognition of the appropriate payable/liability accounts. xxx However, there shall be no physical cancellation of unreleased checks covered by the JEV. (*Section 2.4)

3.2 Unreleased checks are the Agency's checks drawn and recorded but are not actually issued to the payees as of reporting date or balance sheet. On the other hand, a check is said to be stale or not valid when it has not been presented by the payee within the stipulated time set aside by the financial institution or regulatory body. The period is usually 6 to 12 months of issue.

3.3 In Region I, verification of the Bank Reconciliation Statements (BRS) disclosed that there were outstanding checks totalling P31.055 million as at December 31, 2015, of which P30.941 million were unreleased while P0.114 million have become stale since the holders have not deposited or presented the checks to the bank within the prescribed period. The unreleased checks were not reverted to cash in bank account and credited to corresponding liability account, thus, understating the cash in bank account by P31.055 million and the corresponding liability account by the same amount at year end.

3.4 **We recommended that Management instruct the Regional Manager of Region I to:**

> **a. Require the Cashier to submit monthly a list of unreleased checks to the Accountant; and**

b. Require the Accountant to strictly follow the provisions of COA GAFMIS Circular No. 2002-001 on the accounting treatment of unreleased and stale checks.

4. Certificates of Insurance Cover (CICs) issued in Region I with total face amount of P1.122 billion for various government premium subsidy programs, Region III with face amount of P9.656 million for Agrarian Production Credit Program (APCP), and Region IV with face amount of P91.912 million under the Department of Agriculture's (DA) Sikat Saka Program were not fully supported with the required documents contrary to the provisions of Section 4(6) of PD No. 1445; hence, CICs might not have been granted to the rightful beneficiaries.

4.1 The DA and the Land Bank of the Philippines (LBP) signed a Memorandum of Agreement (MOA) for the implementation of the Sikat Saka Program, a loan Program which will provide small palay farmers direct access to credit. Under the MOA, DA shall take the lead in the program implementation with the assistance of the attached agencies. The Revised Implementing Rules and Regulations (IRR) shall cover all concerned units of LBP and DA responsible for program related functions such as processing, fund administration and implementation, and shall apply to the provisions of loans, use of funds, reporting, monitoring and evaluation. The PCIC, being an attached agency to the DA, will be the one to provide insurance coverage to loans under the Program.

4.2 Section 4(6) of PD No. 1445 provides that *"Claims against government funds shall be supported with complete documentations."*

4.3 Also, Section 11, Part 3 (B) of the PCIC Operations Manual for Rice and Corn provides that:

> *Xxx. In the case of an individual borrowing farmer, the Application for Production Loan filed by him with the lending institution accompanied by a duly accomplished Individual Farm Plan and Budget xxx a List of Borrowers (LOB) xxx shall be accomplished. This shall be supported by a Standard Farm Plan and Budget xxx.*
>
> *Xxx Self-financed farmers seeking insurance cover, individually or as a group xxx shall file the prescribed Application for Insurance or List of Participants, accompanied by the applicable Farm Plan and Budget xxx.*
>
> *Xxx All applications for crop insurance shall be supported by a Location Sketch Plan.*

4.4 The following are the necessary documents to support the CICs issued/granted to farmer-beneficiaries:

a. Application for Crop Insurance (ACI) - A document prepared by an individual self-financed farmer or an individual borrowing-farmer for the purpose of applying for insurance coverage with a regional office or any accredited PCIC underwriting agent.

b. Farm Plan and Budget (FPB) - A document prepared by the farmer with the assistance of an Agricultural Production Technician showing the schedules of land preparation and planting/transplanting, varieties to be planted and the estimated quantities and costs of production inputs in a per hectare basis.

c. List of Borrowers (LOB)/List of Participants (LOP) - A document showing the names of borrowing or self-financed farmers, availing of crop insurance as a group, their respective ages, spouse/legal beneficiary, areas, planting calendar seed varieties, amount of loan, premium and signatures.

d. Consolidated Farm Information (CFI) - The form appearing at the back of the LOB/LOP summarizing the following information on the assured farmers' farms: farm location, area insured, lot number/s, land classification, tenurial status, names of adjacent owners/cultivators, landmarks/structures and other farm lot information.

e. Location Sketch Plan (LSP) - A sketch of the farmland, subject of insurance, indicating where it is situated, its distance to the nearest road, area and landmark, and names of adjacent owners/actual tillers.

4.5 Examination of the applications for insurance of farmers in PCIC Region I under various programs such as APCP, Weather Adverse Rice Areas (WARA), Sikat Saka and Registry System for Basic Sectors in Agriculture (RSBSA) in the total aggregate face amount of P1.122 billion revealed that only the accomplished LOB form prepared by the Municipal Agricultural Technologist, Lending Institution Account/Loan Officer, or authorized coop official was only the attached supporting document to the CICs issued.

4.6 Moreover, verification of the CICs issued under the APCP totaling P9.656 million in Region III disclosed the following deficiencies:

a. The PCIC Region III has no copy of masterlist of the Agrarian Reform Beneficiaries (ARBs); hence, validation cannot be done if the enrolled farmer-beneficiaries were qualified or eligible;

b. The Lending Conduits (LCs) did not provide the PCIC Region III with the list of Agrarian Reform Beneficiaries Organizations (ARBO) and ARBO household members endorsed and certified by the Municipal Agrarian Reform Officers (MARO) as eligible borrowers;

c. The CICs were not supported by Deed of Assignment in favor of LBP-LCs;

d. The LBP-LC representative who was included in the program as underwriter for rice and corn crop insurance was not trained by the concerned PCIC personnel on the PCIC's policies and procedures for agricultural insurance programs; and

e. There was no proof that the production loan was received by the farmer-beneficiaries.

4.7 Likewise, review and audit of the insurance coverage approved by the PCIC Region IV for 93 Cooperatives/Farmers and Associations totalling P91.912 million under the Sikat Saka Program of the DA covering the period from August 2013 to December 2014 in the Provinces of Occidental Mindoro, Oriental Mindoro and Palawan, disclosed that 64 CICs were not substantiated with required supporting documents such as LOB, CFI, Farmers Data Sheet, LSP and FPB, while 32 approved CICs were not fully accomplished.

4.8 Thus, the deficiencies noted in the implementation of the different insurance programs of PCIC may result to grant/issuance of insurance coverage to non-qualified or non-existent farmer-beneficiaries. Also, there is a high probability that payment of indemnity claims to non-qualified beneficiaries could be made causing losses to the PCIC in particular and the government in general.

4.9 **We recommended and Management agreed to require the concerned Regional Managers to complete the required documentation and see to it that documents are duly/fully accomplished and free from any inconsistencies in areas, names and other pertinent data to ensure that insurance coverages are given to the rightful farmer-beneficiaries of the various PCIC programs.**

4.10 Region IV Management commented that they tried their best to have all the attachments completed through sending letters to the concerned LBP. They also assured that, though there may be some documents not fully accomplished/submitted, the beneficiaries are eligible for insurance coverage since the LBP and DA are the lender and support agency, respectively.

5. In Region III, 164 farmer-beneficiaries availed of more than one insurance program in the same cropping season on the same farm lots; thus, resulting in the grant of double insurance aggregating to P1.163 million. Further, out of the 164 farmers, seven were paid indemnity claims for losses incurred in the same cropping season in the total amount of P111,811.

5.1 The PCIC Operations Manual provides that for rice and corn insurance purposes, there is double insurance when:

a. The assured is the same;

b. The subject matter/object of insurance is the same;

c. The subject matter is separately insured two or more times;

d. The interest of the assured is the same; and

e. The risk or peril insured against is likewise the same.

5.2 Double insurance is prohibited to prevent over-insurance. Where there is over-insurance by double insurance, the assured can recover no more than his insurable interest whether the insurance is contained in several policies.

5.3 In Region III, review of the transactions under various insurance programs of PCIC revealed that there were a double insurance in the total amount of P1.163 million, as shown in Table 4.

Table 4 – Double Insurance in Region III

Program	Amount
APCP	P 135,580
PPP	524,807
Regular	222,771
Sikat Saka	178,439
WARA	101,121
	P 1,162,718

PPP – Priority Provinces Project

5.4 Also, the total indemnity claims of seven farmers for losses incurred in the same cropping season amounted to P111,811.

5.5 The granting of more than one insurance coverage to farmer-beneficiaries also means incurring more than one Government Share or subsidy granted to farmers resulting in the overlapping of extended benefits, thus, losses of government funds.

5.6 **We recommended and Management agreed to revisit the existing rules and regulations on the grant of subsidized insurance premium to targeted beneficiaries to ensure that no double insurance is incurred and no double payment of deficiency claims is made to safeguard the funds granted by the National Government.**

6. The actual expenditures for Underwriting Expenses exceeded the Corporate Operating Budget (COB) approved by the Department of Budget and Management (DBM) by P310.669 million contrary to Section 4(1) of PD No. 1445 and the conditions set forth by the DBM in the review and approval of PCIC's COB, thus making the transaction irregular.

6.1 Section 4(1) of PD No. 1445 provides that "*No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority."*

6.2 Among the conditions set forth by the DBM in approving the PCIC's COB for CY 2015 were as follows:

> *It is understood that this approval does not authorize any item of expenditure that is prohibited by or inconsistent with the provision of law.*
>
> *The pertinent laws, rules and regulations including those on compensation, procurement, budgeting, accounting and auditing shall be strictly followed. Compliance with all existing laws, rules and regulations shall be the responsibility of the implementing government corporation.*

6.3 The calendar year (CY) 2015 COB approved by the DBM for underwriting expenses was P1.030 billion. However, review of the submitted Statement of Comparison of Budget and Actual Amounts Expended (SCBAAE) showed that the underwriting expenses of P1.341 billion exceeded by P310.669 million or 30.16 per cent of the DBM approved COB of P1.030 billion. Also, the actual underwriting expenses exceeded the COB per SCBAAE of P1.019 billion by P321.433 million or 31.53 per cent, as shown Table 5.

Table 5 – Comparison of Budget and Actual for Underwriting Expenses

COB per Approved DBM	COB per SCBAAE (b)	Actual Expenses (c)	COB per Approved DBM vs. Actual (c-b)	SCBAAE vs. Actual (c-a)
1,030,153,000	1,019,389,041	1,340,822,257	310,669,257	321,433,216
Per cent (Over)			30.16	31.53

6.4 As shown in Table 5, the COB for underwriting expenses per SCBAAE of P1,019.389 million differed by P10.764 million from the COB approved by DBM of P1,030.153 million. The discrepancy represents Underwriting Expenses – Loss Recoveries Reinstatement which was deducted from Underwriting Expense budget as approved by the DBM.

6.5 Non-compliance with Section 4(1) of PD No. 1445 makes the transaction irregular as defined under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012 which states, *viz*.:

> *The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline.*

6.6 Meanwhile, if the underwriting expenses for CY 2015 did not go beyond the COB approved by DBM, the income of PCIC could have been higher by P310.669 million and consequently higher dividend income for the National Government.

6.7 **We recommended and Management agreed to:**

a. Prepare a more accurate and realistic budget for expenses based on historical costs to avoid material unfavorable variance against actual expenses; and

b. Limit the incurrence of expenditures within the DBM approved COB.

7. Reimbursement of medical expenses of the top officials of PCIC HO and Region VII in the total amount of P387,182 was not supported with budget approved by the DBM in violation of Section 4(1) of PD No. 1445, thus, considered irregular expenses.

7.1 The Civil Service Commission - Memorandum Circular (CSC-MC) No. 17, Series of 1989 provides that all government employees shall be required to undergo annual medical and physical examination to determine physical and mental fitness for continued employment. In this regard, PCIC Board Resolution No. 86-026 approved the Revised PCIC Hospitalization, Medical and Dental/Optical Benefits Plan. Further, PCIC Memorandum Circular No. 10, Series of 1986 was issued providing the rules and regulations and procedures/guidelines governing the implementation of the PCIC Hospitalization, Medical and Dental/Optical Benefits Plan.

7.2 Item 3.2.a of PCIC Memorandum Circular No. 10, Series of 1986 provided that members of the Board of Directors, the top three positions and all officers with the rank of department head or its equivalent may charge their actual reasonable medical expenses.

7.3 With the effectivity of Salary Standardization Law (SSL) on July 1, 1989, PCIC Management was able to secure a post-facto approval from the Office of the President (OP) on September 8, 1998 for the fringe benefits not included in the SSL to be continuously enjoyed by incumbents as of June 30, 1989.

7.4 In CY 2015, PCIC's proposed budget of P1.830 million for Medical/Dental/Optical Allowances in its Corporate Operating Budget (COB) was reduced by DBM to P0.728 million or lower by P1.102 million. The approved budget of P0.728 million accounted for the total annual medical and dental/optical benefits of qualified incumbents as of June 30, 1989 at P625/month or P7,500/year. Verification revealed that the approved budget of P0.728 million was utilized for the payment of CY 2015 medical insurance premiums of the qualified incumbents as of June 30, 1989.

7.5 Despite the absence of an approved budget, verification of the disbursements revealed that two PCIC officials in HO and one in Region VII reimbursed their actual medical expenses in the amounts of P58,909 and P328,273, respectively, or aggregating P387,182, in violation of Section 4(1) of PD No. 1445 which provides, *viz*.:

> *(1) No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.*

7.6 As a result, the agency incurred irregular expense by reimbursing the medical expenses of two PCIC officials in HO and one official in Region VII without approved budget from DBM, thus the transaction is disallowable in audit.

7.7 **We recommended that Management:**

a. Require the concerned officials to refund the amount reimbursed totaling P387,182 in CY 2015; and

b. Discontinue the reimbursement of actual medical expenses of PCIC officials.

7.8 Before the exit conference, Management commented that the approval of COB by the DBM lodged the authority of PCIC to grant among others the medical/dental allowance to regular employees and officials who are incumbents as of June 30, 1989 up to P7,500 a year. It also stated that the reimbursement of actual medical expenses for PCIC officials was covered under Board Resolution No. 86-026 and Memorandum Circular No. 10, Series of 1986 which was amended through PCIC Resolution No. 97-062 dated November 25, 1997 entitling the top officials to incur actual reasonable hospitalization, medical, ophthalmological and/or dental expenses. With all these rulings, the refund of medical expenses is no longer necessary. However, it is noteworthy to mention that during the exit conference, Management agreed to stop the payment of actual medical expenses being reimbursed by some of its officials.

7.9 As a rejoinder, based on the CY 2015 PCIC-COB as approved by the DBM, the latter reduced the proposed budget for Medical/Dental/Optical Allowance from P1.830 million to P0.728 million. This approved amount of P0.728 million is provided only for medical/dental of 97 employees who are incumbents as of June 30, 1989 at the rate of P625/month or P7,500/year. On the other hand, the amount of P1.102 million was considered by the DBM as overprovision for Medical/Dental/Optical Allowance; hence, if the payment of actual medical expenses is allowed, the DBM would not have reduced the PCIC proposed budget. Thus, we maintain our recommendations.

8. The existence, accuracy, and validity of the Property, Plant and Equipment (PPE) account cannot be established due to unreconciled book balance and inventory reports in Regions VIII and IX aggregating P0.533 million and non-reclassification of unserviceable properties in Regions IV, VI and XI totaling P0.550 million from PPE to Other Assets account. Meanwhile, the regularity of the procurement of vehicles in CYs 2014 and 2015 by the Head Office (HO) totaling P19.367 million is questionable in view of the absence of complete and appropriate documents as well as non-compliance with the pertinent provisions of RA No. 9184.

Deficiencies on PPE accounts

8.1 In Regions VIII and IX, the results of the physical count of the PPE differed by P0.533 million when compared with the accounting records. The balances per books of Regions VIII and IX were P4.730 million and P4.092 million, respectively, while the Inventory Reports for said Regions disclosed total PPE in the amounts of P5.296 million and P4.059 million, respectively.

8.2 Annex 1 of COA Circular No. 2008-01 dated January 29, 2008 defines Other Asset as the *"cost or fair value of other assets which are not classified under any specific asset accounts. The account includes unserviceable assets not used in operation as well as unserviceable property, plant and equipment awaiting disposal."* Likewise, Section 79 of PD No. 1445 provides that *"when government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative xxx. If found to be valuable, it may be sold at public auction xxx."*

8.3 Audit also revealed that unserviceable properties totaling P0.550 million in Regions IV, VI and XI were not reclassified to Other Assets and not disposed contrary to the above provision of COA Circular No. 2008-01 and Section 79 of PD No. 1445. It was also noted that in Region IV, two destroyed industrial electric fans with salvage value of P189 are still booked as PPE.

8.4 In Region VI, Acknowledgment Receipts for Equipment (AREs) were not issued to concerned officials and employees for their receipt and official use of vehicles, thus, responsibility and accountability over the property issued could not be determined.

Deficiencies in the procurement of vehicles

8.5 The PCIC-HO purchased 14 units of Ford Ranger, one unit of Ford Everest and one unit of Hyundai Starex in CYs 2014 and 2015 totaling P19.367 million.

8.6 Scrutiny of the Disbursement Vouchers (DVs) and their supporting documents on the purchases of the abovementioned vehicles revealed deficiencies that create doubts on the validity and regularity of the transactions, to wit:

a. Certificates of Acceptance on the purchase of 14 units Ford Ranger and one unit Ford Everest, Vehicle Sales Invoice on the purchase of six units Ford Ranger and one unit Ford Everest, and Inspection Reports on the purchase of nine units Ford Ranger were not attached to the DVs contrary to Section 4(6) of PD No. 1445.

b. Some documents supporting the payments, i.e. Invitation to Bid, Bids and Awards Committee (BAC) Resolution, Notice of Award, Supply Contract, Purchase Order, Notice to Proceed, Vehicle Delivery Receipt, Vehicles Sales Invoice/s, Certificates of Inspection Reports conducted by management, were in "Xerox" or photo copies contrary to the general requirements for all types of disbursement as provided in COA Circular No. 2012-01 which requires for, among others, "*sufficient and relevant supporting documents in order to establish validity of claim.*"

c. On the purchase of one unit Ford Everest and five units Ford Ranger, the issuance of Notice to Proceed (NTP) was earlier than the Supply Contract, same with the Vehicle Delivery Receipt (VDR) which was earlier than that of the Suppy Contract. This created doubt on the irregularity in the conduct of procurement process and/or non-compliance by the Agency with the prescribed stages of procurement activities as provided in Annex "C" of the Revised Implementing Rules and Regulations (IRR) of RA No. 1984;

d. Inspection Reports submitted by Management for the Ford Everest and five units Ford Ranger did not state whether the said vehicles complied with or in accordance with the specifications stated in the Supply Contract.

e. Inconsistencies in the documents supporting the purchase of one unit Hyundai Starex, i.e. Vehicle Sales Invoice (VSI) and VDR were issued by Hallasan Motors, Inc., the DV and Check were made payable to Matterhorn

Motor, Inc. while the corresponding Collection receipt was issued by Ford Balintawak.

f. Attendance Sheet dated April 24, 2014 and BAC Resolution No. 2014-017 dated April 28, 2014 were not in agreement regarding the purchase of one unit of Hyundai Starex. BAC Resolution stated that Matterhorn Motor, Inc. was a lone bidder but the Attendance Sheet showed that there were four bidders who attended the bidding.

8.7 In view of the foregoing deficiencies, the existence, accuracy and validity of the PPE account in Regions IV, VI, VIII, IX and XI cannot be established. Likewise, the regularity of the procurement of vehicles by the PCIC-HO is questionable.

8.8 **We recommended that Management:**

a. Instruct the Regional Managers of Regions IV, VI, VIII, IX and XI to: (i) require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property and undertake steps toward the disposal of all unserviceable and idle properties to generate income from the sale thereof, as required by Section 79 of PD No. 1445; (ii) direct the Accountant to prepare the necessary journal entries to reclassify unserviceable properties to Other Assets account and (iii) require the concerned Regional Accounting and Supply Offices to reconcile the PPE account balances and issue AREs to the persons having custody and control of the property;

b. Direct the Head of Finance Department to submit the original copies of the supporting documents, i.e., Certificates of Acceptance, Vehicle Sales Invoice and Inspection Reports, etc. that were not submitted as well as documents submitted in Xerox/Photo copies;

c. Comply strictly with the guidelines on procurement under RA No. 9184 particularly on stages of procurement activities;

d. Require the person responsible for the conduct of inspection of deliveries to indicate the condition of items delivered as well as compliance with the specifications stated in the Supply Contract or Purchase Order; and

e. Submit a written explanation on the disparity in the number of bidders indicated in BAC Resolution No. 2014-017 dated April 28, 2014 and the Attendance Sheet on the opening of bids dated April 25, 2014 relative to the purchase of Hyundai Starex and on the inconsistencies on the VSI and VDR which were issued by non-winning bidder.

8.9 During the exit conferences in Regions IV, VI and XI, the Regional Managers committed to reclassify the unserviceable properties to Other Assets pending disposal of the same following the procedures in Section 79 of PD No. 1445. Also, in Region VI, they committed to issue AREs and furnish the concerned Audit Team Leader with copies thereof.

8.10 PCIC-HO Management commented that the original copies of documents will be submitted as recommended and that alternative documents were submitted, in lieu of the Certificate of Acceptance, which contains the same information. Inconsistent documents in the purchase of one unit Hyundai Starex was due to internal arrangements when dealing with the sale of Hyundai vehicles, since both Matterhorn and Hallasan are under the same ownership, ANC Group of Companies. Also, the Attendance Sheet which showed three other bidders, the attendees were all representatives of Matterhorn Motors Inc. and Hallasan Motors Inc. As to the VSI and VDR of one unit Hyundai vehicle issued by Hallasan Motors, Inc., Management informed that they have requested Matterhorn Motors, Inc. to re-issue the said documents for proper compliance.

8.11 As a rejoinder, the original documents as required under RA No. 9184 should be submitted religiously. Alternative documents should only be used under exceptional circumstances. As regards Management's comments on VSI and VDR issued by the non-winning bidder, the Team would like to emphasize that every corporation or entity has a juridical and legal personality that is distinct and separate from other corporation or entity regardless of ownership (in case of sister companies). Also, submission of the VSI and VDR issued by the winning bidder has not been complied with as of this writing. Further, upon verification, attendees of the BAC Meeting on April 24, 2014 did not come from the same company, contrary to Management allegation. Hence, we reiterate our audit recommendations.

9. Various receivables accounts totaling P113.793 million remained dormant in the books for 17 to 40 years, since the borrowers were either deceased, have retired or their whereabouts could no longer be located; absence of Subsidiary Ledgers and complete documentation; and no request for write-off was made with the Commission on Audit (COA) for long outstanding accounts contrary to Section III of COA Circular No. 97-001.

9.1 This is a reiteration of observation embodied in CY 2014 Annual Audit Report (AAR).

9.2 Section III of COA Circular 97-001 dated February 7, 1997 states that:

A. Dormant Funds

10. If the analysis/review of the accounts/funds is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA, supported by:

10.1 List of available records and extent of validation made on the accounts.

10.2 Certification and reason why the books of accounts/records, financial statements/schedules and supporting vouchers/documents cannot be located.

B. Dormant Accounts

1. Dormant accounts in on active fund shall be reviewed, analyzed and reconciled together with the other related accounts in the trial balance.

9.3 Furthermore, Section 4, Rule VIII of the 2009 Revised Rules of Procedure of the Commission on Audit provides that:

Request for write-off of accounts receivable xxx exceeding 1 million xxx shall be filed with the Commission Secretary. The Commission Secretary shall refer the case to the Central/Regional Office concerned for comment and recommendation and thereafter to the Legal Services Sector for preparation of the draft decision for consideration of the Commission Proper.

9.4 Presented in Table 6 are the dormant receivables totaling P113.793 million.

Table 6 – Various Dormant Receivable Accounts

Receivables	Amount	Remarks
CALF guarantee receivables	P 51,972,343	Dormant for 17 to 30 years
STD advances on claims	43,582,755	Dormant for 33 to 40 years
Adjudicated claims	3,724,229	Dormant for 32 years
Claims on bank-unremitted recoveries	2,287,273	Dormant for 33 years
Due from banks	540,739	-do-
Receivables/Disallowances/Charges	11,685,781	Dormant for 30 years
	P 113,793,120	

9.5 As discussed in CY 2014 AAR, the dormant receivables consist of the following:

a. The CALF Guarantee Program happened way back in the 1980's and 1990's. Under the tripartite scheme of the Program involving a guarantor, lender and borrower, the PCIC administered and guaranteed 85 per cent of the loan of the defaulting borrower, while the lending institutions (LIs) are tasked to exert effort to collect from the covered defaulting borrowers.

b. The STD Claims Paid was governed by PCIC Circular Letter No. 004 dated May 27, 1981. Similar to CALF Guarantee Receivable, the PCIC pays 85 per cent of the outstanding loan balances of farmers, while the LBP undertakes the collection to be remitted to the Regional Office (RO) within 30 days from receipt. These covered beneficiary loans paid by LBP and transferred to the RO as receivables.

c. Adjudicated Claims account stemmed from the paid STD claims, where LIs after five years of collecting loans from farmer-borrowers applied for adjudication thus resulted in the transfer of the collection function to the RO. This receivable represents claim from Rural Bank of Nasipit in the year 1983.

d. Claims on Banks–Unremitted Recoveries represent actual recoveries under the guarantee program which were not remitted to PCIC and details of which could not be established/verified from the concerned banks as these were written off from their books.

9.6 With regard to the dormant Receivables/Disallowances/Charges account in the HO books of P11.672 million, audit showed that bulk of the disallowance represents the PCIC's Car Plan Program amounting to P7.655 million or 65.58 per cent. The Car Plan Program was granted to PCIC Officials, under Board Resolution No. 92-025, from CYs 1993 to 1996. This was disallowed in audit and was affirmed under COA Decision Nos. 96-503, 98-072, and 2001-169. The Commission ruled that the availees should immediately refund the outstanding balance of their accounts representing unamortized cost of motor vehicle, subsidized portion of registration fees/insurance expenses and other related costs, plus interest charges of nine per cent per annum reckoned from the date of availment of the car plan.

9.7 Inquiry from Management revealed that most of the recipients of the car plan were deceased, have resigned or retired from service which deters the process of collection. Almost all of the availees of the Car Plan Program are no longer connected with the PCIC, except for Region X Regional Manager.

9.8 Further inquiry disclosed that except for the disallowances on car plan amounting to P7.655 million, dormant accounts have no SLs and supporting documents could no longer be located.

9.9 With the huge amount of dormant account without complete records, there is serious doubt as to the future economic benefit that the PCIC may realize from these receivables.

9.10 **We recommended and Management agreed to:**

a. Reconstruct secondary evidence to establish validity of the undocumented receivables;

b. Re-examine collection strategies and implement them vigorously to enforce collection of dormant and long outstanding receivables; and

c. Require the Finance Manager and concerned Regional Managers to comply with the requirements for request for write-off guided by the steps in the proper disposition/closure of dormant accounts as provided for under COA Circular No. 97-001 and Section 4 of the 2009 Revised Rules of Procedure of the COA.

9.11 Management commented that the PCIC Department Manager for Finance has already issued Office Memorandum dated September 16, 2014 informing all Regional Offices (ROs) to analyze and reconcile account receivables which remained dormant for more than 10 years. To date, ROs are finalizing the requirements for the reconstruction of secondary evidence and are now preparing their requests for write-off. As to Receivables/Disallowances in relation to Car Plan, the Department Manager for Finance has already requested death certificates from the Philippine Statistics Authority (PSA) of five confirmed deceased based on the latest update of the PSA list. Also, the collection procedures based on regular issuance of demand letters and the continuous intensive research of documents from various sources to constitute evidence for collection are incessantly undertaken.

9.12 As a rejoinder, while Management has issued an Office Memorandum on September 16, 2014 informing all ROs to analyze and reconcile dormant receivables, there were no documents submitted to the Office of the Auditor that would show that utmost attention was given to the collection of receivables during the year. Likewise, the Memorandum should have been issued by the President, PCIC addressed to the Regional Managers so as to make it more authoritative. Hence, we maintain our recommendations.

10. The Bank Reconciliation Statements (BRSs) of Region XI for cash in bank account amounting to P31.969 million were not submitted to the Auditor contrary to Section 74 of PD No. 1445, while in Region I paid disbursement vouchers (DVs) totaling P16.852 million from Claims Fund and their corresponding supporting documents were not submitted on time for audit contrary to Section 7.2.1 of COA Circular No. 2009 - 006 dated September 15, 2009.

Unsubmitted BRSs

10.1 Section 74 of PD No. 1445 provides that:

> *At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing in their books. The head of the agency shall see to it that reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.*

10.2 In Region XI, the BRSs for the months of February to December 2015 for the Cash-in-bank – Claim Fund account maintained at LBP with book balance of P31.969 million were not submitted to the Auditor contrary to the above provisions. Interview with the concerned Accountant disclosed that the non-submission of BRSs was due to the Bank Statements that were already sent by the bank were allegedly not received by the Regional Accountant.

10.3 The preparation of the BRS is an accounting control to ensure the accuracy and reliability of the reported Cash-in-bank balance. The prompt preparation of the bank reconciliation would allow immediate adjustments in the balance of the account in case there are discrepancies between the agency's records and that of the depositories. In view of the absence of the BRSs for more than 11 months, the balance of the Cash in bank account totaling P31.969 as at year-end could not be relied upon.

Late submission of DVs

10.4 In Region I, record showed that 2,352 DVs for Claims Fund totaling P16.852 million were not submitted to the Audit Team Leader as of December 31, 2015. Management informed that these DVs were not yet submitted to COA since the checks were not yet claimed by the payees. However, verification revealed that the corresponding checks for the unsubmitted DVs were already released and/or claimed by the payees.

10.5 Section 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009, prescribing the use of the Rules and Regulations on Settlement of Accounts, provides that:

> *7.2.1 The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that:*
>
> *a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month;*
>
> *Xxxx*

10.6 The failure of Region I concerned personnel to submit all paid DVs for claim fund within the prescribed period precluded the Auditor to conduct the timely post-audit of the same contrary to the above stated COA Circular.

10.7 Hence, any material observations that may be found in audit could not be immediately communicated to Management for necessary corrections/adjustments.

10.8 **We recommended that Management instruct the:**

a. Regional Manager of Region XI to require the personnel concerned to submit to COA the monthly BRS pursuant to Section 74 of PD No. 1445; and

b. Regional Manager of Region I to require the personnel concerned to submit the DVs for Claim Fund as soon as possible to enable the Auditor to conduct the necessary audit, and henceforth, to ensure that DVs for Claim Fund are submitted to the Auditor within 10 days of the succeeding month pursuant to COA Circular No. 2009-006.

10.9 Management in Region XI commented that the observations are properly noted and assured compliance with the suggested recommendations.

11. The propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained due to absence of necessary information, i.e. date, delivery terms, payment terms, date of receipt by the supplier, among others. Likewise the POs were not submitted to COA within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009.

11.1 Section 9.2 of COA Circular No. 2012-001 dated June 14, 2012 on the basic documentary requirements for all purchases under alternative modes, requires the necessary information in the PO, as follows:

> *Purchase Orders/Letter Order/Contract, duly approved by the official concerned and accepted by the supplier (date of acceptance must be*

clear, especially when the time or date of delivery is dependent on or will be counted from the date of acceptance of the purchase order/letter order/contract).

11.2 The PO serves as the contract between PCIC and the winning supplier for the delivery of goods and services procured by the former.

11.3 Interview with concerned personnel disclosed that as a matter of procedure at PCIC, the POs are being prepared by two PCIC personnel assigned at the Property Management & General Services Division (PMGSD). The PO for regular office supplies is prepared by the Supply Officer II and the PO for purchases other than regular supplies is prepared by the Division Chief, PMGSD, both based on the Abstract of Quotation where the lowest responsive bidder/supplier was selected. The Division Chief of PMGSD reviews and signs the “Recommending Approval” portion thereof, while the Manager of Finance Department certifies as to the availability of funds. The PO is approved by the Acting Vice President – Support Services or other authorized signatories in accordance with the limit set under the Codified Approving and Signing Authorities (CASA) of the Agency. After which, the designated personnel at the PMGSD assigns and logs the PO number for control and monitoring purposes. Upon issuance of the PO to the responsive/winning supplier, the latter is required to sign the “Conforme” portion thereof and to indicate the date when it was received.

11.4 In order to protect the interest of the Agency, all necessary information, i.e. date, delivery terms, payment terms, signature of the supplier, and date of receipt by the supplier, among others, should be indicated/ provided in the PO.

11.5 Relative thereto, scrutiny of the POs in CY 2015 for procurement of various supplies disclosed the following deficiencies:

a. The delivery terms were not provided in 95 POs totaling P5.472 million;

b. Payment terms were not indicated in 94 POs totaling P5.307 million;

c. The “Conforme” portions of 77 POs in the total amount of P4.735 million were not signed by the suppliers; and

d. The dates when the POs were received by the supplier were not indicated in 82 POs in the total amount of P4.798 million.

11.6 Absence of the above information in the POs puts the Agency in a disadvantageous situation, since enforcement of the terms and conditions due to non-compliance and imposition of penalty in case of late deliveries could not be made against the suppliers.

11.7 Also, several POs were not submitted to COA within five days from issuance thereof while others were not submitted at all. Out of 121 POs issued in CY 2015 by PCIC totaling P5.740 million, 25 POs or 21 per cent in the total amount of P0.258 million were not submitted to COA for review, while 48 POs or 40 per cent aggregating P2.574 million were not submitted within five working days from issuance thereof as required under Item 3.2.1 of COA Circular No. 2009-01 dated February 12, 2009, which provides as follows:

3.2.1 A copy of any purchase order irrespective of amount, and each and every supporting document, shall, within five (5) working days from issuance thereof, be submitted to the Auditor concerned. Within the same period, the Auditor shall review and point out to management defects and/or deficiencies, if any, in the same manner provided in the second and third sentences of Item 3.1.4 hereof.

11.8 The delay in the submission to COA of the abovementioned 48 POs ranged from 10 to 32 days. On the other hand, the non-submission of 25 POs precluded the Auditor from taking timely review and evaluation of the transactions and communicating the results thereof to Management.

11.9 Moreover, the Audit Team noted that two POs were not sequentially numbered contrary to sound internal control which may result in possible unaccounted POs. The No. 2015-051 was used twice. The first PO bearing said number was issued to the National Printing Office on June 6, 2015 while the other PO was issued to Firstline Printing Services on August 28, 2015. On the other hand, PO No. 2015-079 was issued to Henson Clothing Company on August 4, 2015 while PO No. 2015-079b was issued to National Printing Office on September 7, 2015. Both cases showed lapses in the preparation and assigning of PO numbers, thus indicating weak internal control.

11.10 Inquiry revealed that the above deficiency in assigning same number to two different POs resulted when the person who prepared the PO already indicated the PO number, while the personnel designated to assign PO number also assigned the same number to another PO.

11.11 In view of the foregoing deficiencies noted in audit, the propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained.

11.12 **We recommended and Management agreed to require the PMGSD to:**

a. Ensure that all the necessary information are provided/indicated in the POs;

b. Strictly comply with the provisions of COA Circular No. 2009-001 on the submission of POs to the Office of the Auditor;

c. Observe due diligence in the preparation of the POs and assigning of number; and

d. Define responsibilities that would provide adequate internal control and communicate clearly each responsibility and ensure that personnel are aware of their respective responsibilities.

12. Disbursement Vouchers (DVs) for the grant and liquidation of cash advances for local and foreign travels of PCIC officers and employees in Head Office (HO) and Region VII amounting to P1.759 million and P0.273 million respectively, were not duly supported with approved Office Orders/Travel Orders and authority to travel signed by the Secretary of the Department of Agriculture (DA), in case of foreign travel, contrary with Items 1.1.4.1 and 1.1.4.2 of COA Circular No. 2012-001 dated June 14, 2012; hence, the propriety of transactions cannot be determined.

12.1 Items 1.1.4.1 and 1.1.4.2 of COA Circular No. 2012-001 prescribing the documentary requirements for the grant of cash advance of travelling expenses states:

> *1.1.4.1 Traveling Allowances*
>
> *Xxxx*
>
> *1.1.4.1 Local Travel*
>
> <u>*Documentary Requirements:*</u>
>
> - *Office Order/Travel Order approved in accordance with Section 3 of EO No. 298;*
> - *Duly approved itinerary of travel; and*
> - *Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.*
>
> *1.1.4.2 Foreign Travel*
>
> <u>*Documentary Requirements:*</u>
>
> - *Office Order/Travel Order approved in accordance with Section 2 of EO No. 459;*
> - *xxxx*

12.2 Audit of DVs for grant of cash advances for local and foreign travels showed that these were not supported with Office Orders/Travel Orders. The Office Order/Travel Order is a document authorizing or permitting an official or employee to travel on official business to a specified place or destination for a specific purpose and duration of time. The authorized approving officials are specified in Section 3 of Executive Order (EO) No. 298 for local travel and Section 2 of EO No. 459 for foreign travel, *viz*.:

> Section 3 of EO No. 298 dated May 29, 1995:
>
> *Approval of Travel and Payment of Travel Expenses. Travels of officials and employees xxx for less than thirty (30) days and payment of travel expenses therefor shall be approved by the head of office /bureau or equivalent. Travels that will last thirty (30) days or more and payment of travel expenses therefor shall be approved by the Department Secretary or his equivalent. The approval of the Department Secretary concerned shall be construed as equivalent to the approval of the Secretary of Budget and Management.*

Section 2 of EO 459 dated September 1, 2005:

Section 2. Subject to Section 5 hereof, all other government officials and employees seeking authority to travel abroad shall henceforth seek approval from their respective head of agencies, regardless of the length of their travel and the number of delegates concerned. For the purpose of this paragraph, heads of agencies refer to the Department Secretaries or their equivalents.

In case of GOCCs and GFIs attached to the Office of the President, their officials and employees shall seek approval from the heads of these GOCCs and GFIs. Officials and employees of GOCCs and GFIs not attached to the Office of the President shall seek approval from the department head to which they are attached.

12.3 Verification disclosed that only the “Itinerary of Travel/Travel Order,” approved by the Head of Agency or other authorized official, is being attached to the DV for grant and liquidation of cash advances for travelling expenses. The “Itinerary of Travel/Travel Order” form showed the detailed schedule of travel, i.e. the date, time and destination of travel. Based on the content of the Itinerary of Travel, it showed a mere travel plan but not necessarily equivalent to an authority to travel or Office Order/Travel Order as required under Item 1.1.4.1 of COA Circular No. 2012-001. The Itinerary of Travel and the Travel Order are two different documents with different purposes.

12.4 As of October 31, 2015, the HO granted total cash advances of P0.856 million for 108 local travels of its officials and employees without the required Office Orders/Travel Orders. For foreign travels, there were nine completed foreign travels from January to October 2015 with total cash advances of P 0.903 million. Further verification revealed that there were no Travel Orders/Special Orders issued to any of the nine employees/officers who went on travel abroad contrary to Item 1.1.4.2 of COA Circular No. 2012-001. Out of the nine foreign travels, only four travel requests were made to DA and had the approval of DA Secretary. The remaining five foreign travels lacked authority from/ approval of DA Secretary as required under Section 2 of EO No. 459.

12.5 Likewise, traveling expenses amounting to P0.273 million in Region VII were not also supported with the required supporting documents as provided under COA Circular No. 2012-001, such as Travel Order, Certificate of Travel Completed, Certification that the actual expenses for meals and accommodation are necessary and the prescribed Liquidation Report.

12.6 **We recommended that Management:**

a. Comply strictly with the required issuance of Travel Order to officials and employees to show that the travel is authorized;

b. Seek the approval of the Secretary of DA for every foreign travel of officials and employees;

c. Instruct the Accounting Department to refrain from processing cash advances for travelling expenses without the required Travel Order and travel authority from DA Secretary, in the case of foreign travel; and

d. Require Regional Officer of Region VII to submit Certification approved/noted by the Head of the Agency that the travelling expenses for actual meals and accommodation are necessary.

12.7 Management commented that the Itinerary of Travel form was similar to an Office Order/Travel Order. As to the foreign travels, they mentioned that PCIC has steadily complied with the requirement by obtaining an approval from the Secretary of DA. Further, during the exit conference, PCIC agreed to comply with the issuance of Office Order form as distinct and different from the Itinerary of Travel to its officials and employees.

12.8 As audit rejoinder, the Team appreciates Management's effort to comply with the recommendations. After the exit conference on May 12, 2016, PCIC submitted the approval of DA Secretary on the five foreign travels which were not submitted before. Likewise, Management is now issuing Travel Order separate from the "Itinerary of Travel/Travel Order" form which was their practice before the issuance of this observation.

13. The remittance of collections by underwriters in Region IV totaling P3.659 million was delayed by 1 to 93 days contrary to Section 14 of PCIC Rules and Regulations on Insurance of Rice and Corn Crops; thus, exposing the fund to possible loss and misuse and depriving the Agency of the immediate use of the collections.

13.1 Under Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, underwriting agents shall remit the premiums to the nearest PCIC RO within 15 days from approval of application for insurance or issuance of Certificate of Insurance Cover (CIC). It also provides that non-compliance with the remittance period by the concerned underwriting agents shall render them liable for any loss occurring during the period of delay, without prejudice to the imposition of other sanctions provided for under existing laws.

13.2 In Region IV, review and verification of the Premiums Register for the year disclosed that collections totaling P3.659 million were remitted by the 15 authorized underwriters of the PCIC- Region IV from one to 108 days after issuance of the CIC. Thus, there were delays in remittance of premiums ranging from one to 93 days [108 days -15 days].

13.3 In CY 2014, the longest number of days delay in remittance was 38 days while in CY 2015 it was 93 days or longer by 55 days.

13.4 The Regional Marketing and Sales Division (RMSD) has the control over the approved insurance applications, issuance of the CICs and the schedule of collection of premiums. As such, it should remind and monitor all Insurance Processors/underwriting agents to remit their collections on time.

13.5 The late remittance of premiums exposed these funds to possible misuse or loss and deprived Management of the immediate use of the collections for its operations.

13.6 **We recommended that Management require the Regional Manager of Region IV to:**

> **a. Monitor strictly the remittance of insurance premiums by the Insurance Processors/underwriting agents; and**
>
> **b. Enforce the Insurance Processors/underwriting agents to strictly remit their collections within 15 days from issuance of the CIC as provided under Rules and Regulations on Insurance of Rice and Corn Crops.**

13.7 Management of Region IV commented that they could not avoid the delay in the remittance of collections by the underwriting agents; however, they have already instituted measures to lessen the delay.

14. In Region XII, Job Order (JO)/Contractual personnel were allowed to travel and claim per diems amounting to P141,135 in CY 2015 and performed other duties like collections of insurance premiums, claims adjustments and follow up of insurance programs, contrary to existing Civil Service Commission (CSC) Regulations.

14.1 Section 1, Rule XI of CSC Memorandum Circular (MC) No. 40, Series of 1998 as amended by CSC MC No. 15, Series of 1999, otherwise known as the "Revised Omnibus Rules on Appointment and Other Personnel Actions" provides:

> *Contracts of Services/Job Orders xxx are not considered government services.*

14.2 Further, Section 2, Rule XI of the same MC states the employment description of Contracts of Services/Job Orders as follows:

> *a. The contract covers lump sum work or services such as janitorial, security or consultancy services where no employer-employee relationship exist;*
>
> *b. The job order covers piece work or intermittent job of short duration not exceeding six months on a daily basis;*
>
> *c. The contracts of services and job orders are not covered by Civil Service Law, Rules and Regulations, but covered by COA rules;*
>
> d. *The employees involved in the contracts or job orders do not enjoy benefits enjoyed by government employees, such as PERA, COLA and RATA.*

14.3 In CY 2015, Region XII hired 33 JOs to augment the existing workforce. Fifteen JOs were assigned to the Marketing and Sales Division (MSD), 10 to the Claims and Adjustment Division (CAD) and eight to the Accounting and Finance Division (AFD).

14.4 The "Employment Contract/Appointment," executed and signed by the Regional Manager referred to as the "Employer" and the person hired referred to as the "Employee," did not specify the nature of work to be done by the JOs; however, the actual work performed by them are not allowed under the CSC Regulations mentioned-above, such as:

a. Conduct marketing/underwriting activities in assigned area of work;

b. Act as teller/cashier to collect premiums for all PCIC lines and issue corresponding receipts/Certificate of Insurance Coverage to insured farmers;

c. Attend the farmers meeting and discuss PCIC product lines;

d. Perform field works/conduct field investigation and assessments for all insurance claims;

e. Prepare Claims Adjustment and Verification Request (CAVR); and

f. Attend seminars and collect travel expenses just like a permanent government employee.

14.5 Allowing these JOs to act as teller/cashier and collect premiums is risky, since the government funds are not safeguarded considering that they are not government employees and are not bonded under existing rules. This is detrimental on the part of the PCIC.

14.6 Moreover, audit revealed that the JOs were allowed to travel on official business where they were given travelling allowance and per diems totaling P141,135 in CY 2015. JOs may be allowed only to go on official travel/attend seminars for the purpose of: (a) undertaking official mission/tasks which cannot be performed by/or assigned to any other regular/permanent employee and/or, (b) performing tasks/activities necessary to be able to fulfill the obligations as contained in his/her contract of service. In both cases, the travel shall involve the minimum expenditure and is expected to bring immediate benefit to the Agency.

14.7 **We recommended that Management require the Regional Manager of Region XII to:**

a. Discontinue the practice of allowing JOs to perform the functions of the regular insurance underwriters/adjusters and that of a collecting officer to protect the interest of the PCIC; and

b. Strictly adhere to the provisions of Section 1, Rule XI of CSC MC No. 40, Series of 1998 as amended by CSC MC No. 15, Series of 1999, and stop the practice of allowing the JOs/ contractual personnel to claim transportation/travelling allowance and per diems.

14.8 During the exit conference, Region XII Management reasoned out that due to voluminous transactions and limited regular manpower, some key functions of regular employees were assigned to JOs, but under the supervision of their immediate supervisors who are bonded. They added that the seminars attended by the JOs were either in the performance of Gender and Development programs or authorized by the PCIC HO with special order, and that in occasional cases they sent a JO to represent PCIC in meetings with other agencies and in validating insurance applications. PCIC only reimbursed the actual transportation expenses on regular fare. The Regional Manager asked the Team if PCIC can extend any form of incentives to the JOs in their performance of work which are not allowed by law.

14.9 As a rejoinder, the Team explained that strict adherence to the provisions cited above would benefit PCIC in safeguarding its assets.

VALUE FOR MONEY

15. The PCIC has successfully attained its target of providing free insurance coverage in the total amount of P478.016 million for CYs 2014-2015 to 263,610 farmer-beneficiaries in Regions VI, VII and VIII who were adversely affected by Typhoon Yolanda in consonance with the directive of the Office of the President under Memorandum Circular No. 59, Series of 2013, requiring the Department of Agriculture (DA) attached agencies to provide support to the victims of Typhoon Yolanda.

15.1 On November 26, 2013, the Office of the President of the Philippines issued Malacañang Memorandum Circular No. 59, Series 2013, directing all Government Financial Institutions (GFIs) to provide necessary assistance to individuals and entities directly and adversely affected by Typhoon Yolanda (international codename: Haiyan) that caused widespread destruction, substantial damage, and death in several areas in the country, including Samar, Leyte, Negros, Cebu, Bohol, Capiz, Aklan, Antique, Iloilo and Palawan. The same memorandum declared a State of National Calamity.

15.2 Section 17(d) of RA No. 10121, or the "Act Strengthening the Philippine Disaster Risk Reduction and Management System, Providing for the National Disaster Risk Reduction and Management Framework and Institutionalizing the National Disaster Risk Reduction and Management Plan, Appropriating Funds Therefor and For Other Purposes," provides that*:*

> *Section 17. Remedial Measures. - The declaration of a state of calamity shall make mandatory the immediate undertaking of the following remedial measures by the member-agencies concerned as defined in this Act:*
>
> *Xxxx*
>
> *(d) Granting of no-interest loans by government financing or lending institutions to the most affected section of the population through their cooperatives or people's organizations*.

15.3 In consonance with the Memorandum Circular No. 59, Series of 2013 of the Office of the President, the Secretary of the DA directed all DA's attached agencies, including PCIC to provide support to Typhoon Yolanda victims. Having a mandate to provide insurance protection to the country's agricultural producers, PCIC allotted 100 per cent free or full premium subsidy (discount) for insurance coverages to farmers and fisher folks affected by Typhoon Yolanda, particularly in Regions VI, VII and VIII, for CYs 2014 and 2015.

15.4 As such, the Board of Directors of PCIC approved the following Resolutions for the provision of 100 per cent free or full premium discount for the insurance coverages of subsistence farmers and fisherfolks (borrowing and self-financed) directly affected by Typhoon Yolanda:

For CY 2014

a. Board Resolution No. 2014-013, allocating P30 million premium discount to the Provinces of Iloilo, Capiz, Aklan, Antique, and Guimaras Island in Region VI;

b. Board Resolution Nos. 2014-025, 2014-042, and 2014-071, allocating a total of P48.016 million to the Municipalities in Region VII, i.e. Bantayan, Santa Fem Madridejos, San Remigio, Medellin, Daanbantayan, Tabogon, Tabuelan, Borbon, San Francisco, Pilar, Poro, Tudela, and Bogo City;

c. Board Resolution No. 2014-013 allocating P150 million to the Provinces of Leyte, Southern Leyte and Biliran in Region VIII and later on, all provinces of Region VIII were covered by virtue of Board Resolution No. 2014-060; and

For CY 2015

d. Board Resolution No. 2015-006, approving the P250 million to the previously approved municipalities and/or provinces of Regions VI, VII, and VIII.

15.5 Based on PCIC's Report, for CYs 2014 and 2015, it surpassed its target coverage of P478.016 million by P20.833 million or 4.36 per cent compared to its actual production of P498.849 million (total premium discounts provided). The farmers and fisher folks insured/ covered totaled to 263,610, of which 107,538 were insured in CY 2014 and 156,072 in CY 2015. Details are shown in Table 7.

Table 7 – Target vis-à-vis Actual Premium Discount Granted for CYs 2014 and 2015

Year	Region	Target PD	Actual No. of Farmers Insured	Actual Premium Discount	Excess PD over Target PD	Percent
2014	VI	P 30,000,000	40,028	P 43,962,000	P 13,962,000	46.54
	VII	48,016,000	29,115	51,546,000	3,530,000	7.35
	VIII	150,000,000	38,395	124,560,000	(25,440,000)	(16.96)
		228,016,000	**107,538**	**220,068,000**	**(7,948,000)**	**(3.48)**
2015	VI	60,000,000	32,640	65,928,000	5,928,000	9.88
	VII	60,000,000	80,032	70,284,000	10,284,000	17.14
	VIII	130,000,000	43,400	142,569,000	12,569,000	9.67
		250,000,000	**156,072**	**278,781,000**	**28,781,000**	**11.51**
		P 478,016,000	**263,610**	**P 498,849,000**	**P 20,833,000**	**4.36**

15.6 The farmers and fisher folks were given full insurance coverage in the form of premium discount, wherein they were issued Certificates of Insurance Cover (CICs) without paying any premiums. The purpose of this endeavor is to give the farmer-beneficiaries stability in their livelihood while taking risks in the worsening weather conditions due to the adverse effect of climate change and global warming, thereby contributing in the growth of the agriculture industry.

15.7 As presented in Table 8, out of 263,610 insured farmers, 22,750 farmers were indemnified aggregating P127.336 million for the two-year period - that is the insured farmers who lost their crops due to Typhoon Yolanda had recovered what they lost.

Table 8 – Indemnities Paid

		Actual		Indemnity Paid		Per cent	
Year	**Region**	**No. of Farmers Insured**	**Premium Discount**	**No. of Farmers Insured**	**Amount**	**No. of Farmers**	**PD vs. Indemnity Paid**
2014	VI	40,028	P 43,962,000	2,084	P 8,027,000	5.21	18.26
	VII	29,115	51,546,000	252	1,555,000	0.87	3.02
	VIII	38,395	124,560,000	3,265	18,758,000	8.50	15.06
		107,538	**220,068,000**	**5,601**	**28,340,000**	**5.21**	**12.88**
2015	VI	32,640	65,928,000	6,713	35,045,000	20.57	53.16
	VII	80,032	70,284,000	1,578	13,241,000	1.97	18.84
	VIII	43,400	142,569,000	8,858	50,710,000	20.41	35.57
		156,072	**278,781,000**	**17,149**	**98,996,000**	**10.99**	**35.51**
		263,610	**P 498,849,000**	**22,750**	**P 127,336,000**	**8.63**	**25.52**

15.8 The attainment of the target could be attributed to the incessant efforts of the officers and employees of the Agency in attending to every insurance need of farmers and other agricultural folks.

15.9 **We recommended and Management agreed to sustain/further advance the positive results by increasing the number of insured farmers every year, through the roll out of more programs in partnership with other agencies that share the same purpose so as to make PCIC a viable service-oriented Agency protecting the marginal farmers and contributing in the growth of the agriculture industry.**

GENDER AND DEVELOPMENT (GAD)

16. The amount allocated of P4.100 million for PCIC GAD programs, projects and activities as required under Section 34 of the General Appropriations Act (GAA) for Fiscal Year (FY) 2015 and Joint Circular No. 2004-1 of the Department of Budget and Management (DBM), National Economic Development Authority (NEDA) and National Commission on the Role of Filipino Women (NCRFW) was not equivalent to or at least five per cent of the total COB of P1.504 billion or P75.200 million. Likewise, actual expenses for two GAD activities exceeded their budgets while one activity was not implemented; thus, the GAD Plan and Budget (GPB) for CY 2015 was not efficiently carried out.

16.1 Section 34 of the GAA for FY 2015 provides that all agencies of the government shall formulate a GAD Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under RA No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination

Against Women, the Beijing Platform for Action, the Millennium Development Goals (CYs 2005-2015), the Philippine Plan for Gender-Responsive Development (CYs 1995-2005), and the Philippine Development Plan (CYs 2011-2016).

16.2 Section 28 of the GAA for FY 2015 further provides that *"[T]he GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets.*

16.3 Joint Circular No. 2012-01 of the Philippine Commission on Women (PCW), NEDA and DBM provides guidelines and procedures for the formulation and submission of agency Annual GPB and Accomplishment Reports (ARs). It also provides the mechanics for the development of programs, activities and projects that promote gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment. Pertinent provisions of the Joint Circular on the submission, review and endorsement of agency GPBs state that:

> *8.1.1 GOCCs attached to line departments shall prepare their GPBs xxx and shall submit the same to their central office for review.*
>
> *8.2 The GFPS of the agency shall review all submitted GPBs and as needed, provide comments or recommendations for revision. xxx. The GFPS shall then submit the final GPBs and the corresponding GAD ARs to PCW for review and endorsement to DBM.*

16.4 Verification showed that the Agency prepared and submitted CY 2015 Annual GPB to the PCW for review and endorsement to DBM. The budget allocated by PCIC per its COB for CY 2015 for GAD activities was P3.613 million, while P4.100 million was allotted in the GPB for five activities as shown in Table 9.

16.5 The amount allocated of P4.100 million was only 0.27 per cent of the total COB of P1.504 billion, hence not in accord with Section 28 of the GAA for FY 2015 which requires that at least five per cent of the budget be allocated for GAD. The allocation was short by P71.100 million (P1.504 billion x 5% = P75.200 million – P4.100 million).

16.6 Table 9 presents the GPB *vis-à-vis* AR. As can be gleaned from Table 9 total allocation of P4.100 million was fully expended; however, the GAD activity on Seminar on GAD Focal Point System (GFPS), Coordinators/Focal Persons on Regional Offices was not implemented while some of the expenses in two activities exceeded their budget allocation.

Table 9 – GPB vis-à-vis AR

Activity	Approved Budget	Actual Expenses Per AR	Under/(Over)
Provision of GAD corner, client lounge for children	P 800,000	P 200,000	P 600,000
Training on Gender and Development Planning and Budgeting	500,000	500,000	-
Seminar on GFPS, Coordinators/Focal Persons of Regional Offices	500,000	-	500,000
Forums such as conduct of Financial Wellness Seminar, Fun Run National Women's Month	800,000	900,000	(100,000)
Training on Empowerment and Gender Integration for HO and Regional Offices	1,500,000	2,500,000	(1,000,000)
	P 4,100,000	**P 4,100,000**	**P -**

16.7 Thus, the PCIC CY 2015 GPB was not efficiently carried out

16.8 **We recommended and Management agreed to:**

a. Strictly follow the provision of Section 28 of the GAA and ensure that the budget for GAD is equivalent to five per cent of the COB; and

b. See to it that all activities in the GPB are implemented and actual expense per activity does not exceed the budget allotted.

COMPLIANCE WITH TAX LAWS

17. Taxes withheld for compensation of officials and employees, creditable tax and E-VAT for procurements of goods and services were remitted on time in CY 2015, while the income tax withheld for the month of December 2015, percentage and documentary stamp taxes were remitted in January 2016. However, other taxes due to local government units (LGUs) at the ROs for fire and property floater in the amounts of P68,508 and P7,040, respectively, remained not remitted. Verification of records revealed that the amounts started accumulating in CY 2011 and no reductions were made to the accounts since then. Inquiry from Management revealed that the amounts are due to LGUs but payments are not accepted by the same.

COMPLIANCE WITH REMITTANCES OF GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS) CONTRIBUTIONS

18. For CY 2015, the personal and government shares were computed properly and accurately based on employees' salaries. For the month of December 2015, the total amount of employees' share deducted from the payroll for HO was P146,066 and the corresponding employers' share was P194,754. These were remitted on time to GSIS on January 7, 2016 under Official Receipt No. 890019786.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

19. As of December 31, 2015, the unsettled audit suspensions and disallowances amounted to P15.996 million and P12.972 million, respectively, as shown in Table 10. There were no unsettled audit charges at year-end.

Table 10 – Unsettled Audit Suspensions and Disallowances

Nature	Amount	Status
Suspensions:		
Various disbursements	**P 15,995,937**	Still within the reglementary period to comply with the requirements.

Nature	Amount	Status
Disallowances:		
Nine per cent Interest on Car Plan	7,044,358	Final and executory
Anniversary Bonus	1,250,000	Has pending appeal in the amount of P860,000
Fringe Benefits Allowances	868,728	Final and executory
Purchases	850,371	Final and executory
Insurance/Registration/Chattel Mortgage	610,249	Final and executory
Retirement	305,586	Final and executory
Repairs and Maintenance	169,073	Final and executory
Premium Payment	126,466	Final and executory
Travel Expenses	94,021	Final and executory
Gasoline and Oil	76,627	Final and executory
Indemnity payment	67,293	Final and executory
Property	60,266	Final and executory
Claims Fund	197,071	Final and executory
Communication	53,094	Final and executory
Miscellaneous/Extraordinary Expense	41,573	Final and executory
Membership Dues	24,995	Final and executory
Representation Expense	3,956	Final and executory
Others	1,128,058	Final and executory
	P 12,971,785	

PART III – STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 65 recommendations contained in the prior years' Annual Audit Reports (AARs), 25 were fully implemented, 33 were partially implemented and 7 were not implemented.

Observations and Recommendations	Actions Taken / Comments
CY 2014 AAR	
1. The difference between the Statement of Financial Position (SFP) and the General Ledger (GL) balances for the Subscription Receivable account and Accumulated Profits (Losses) totaling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the GL, and inappropriate preparation of trial balance (TB) rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion.	
We recommended that Management:	
a. Require the Accounting Division to conduct an in-depth analysis of the accounts pertaining to prior years' transactions and effect the adjustments where appropriate, to prevent inaccurate and misleading information; and	Fully Implemented.
b. Observe due diligence in the proper keeping of the books of accounts considering that top management or other users of the financial statements greatly depend their decisions on the available financial information.	Fully Implemented. Accounting Division submitted the manually prepared GL pending the implementation of the new accounting system.
2. The trust liability pertaining to the funds received from the Department of Agriculture (DA) amounting to P150 million as Government Premium Subsidy (GPS) for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization	

Observations and Recommendations	Actions Taken / Comments
of the funds and the absence of subsidiary ledgers for the Other Payables-Others account.	
We recommended that Management:	
a. Require all the Accountants to immediately analyze the transactions pertaining to the P150 million DA-GPS and effect the necessary adjustments to the appropriate liability accounts, the reciprocal accounts and other affected accounts, to establish the correct balance of the liability to the DA;	Fully Implemented.
b. Require the Regional Office Accountants to submit duly audited Report of Disbursements to support the Debit Memos for fund utilized under the programs; and	Fully Implemented.
c. Henceforth, remind all concerned to strictly comply with the provisions of COA Circular No. 94-013 in the recording of receipt and liquidation of funds received from the source agencies, and in the maintenance of subsidiary ledgers for proper accounting and monitoring of the funds.	Fully Implemented.
3. The Government Premium Subsidy (GPS) in excess of the insurance coverage under the Department of Agriculture-Land Bank of the Philippines (DA-LBP) Sikat Saka and National Irrigation Administration (NIA) Early and Third Cropping Rice Programs in the amount of P47.472 million was recognized as Due from Other National Government Agencies (NGAs) – DA in the absence of Memorandum of Agreement (MOA), thus overstating the receivable account and corresponding income by the same amount.	

Observations and Recommendations		Actions Taken / Comments
	We recommended that Management:	
	a. Provide direction to the Head Office Accountant to prepare necessary adjusting entries to correct the Due from Other NGAs – DA and other related accounts;	Fully Implemented.
	b. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and	Not Implemented. Verification of records showed that a total of P48 million was disbursed for the implementation of the program for CY 2015.
	c. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.	Not Implemented.
4.	The collectability of dormant receivable accounts totaling P101.946 million which were provided with 100 per cent allowance for doubtful accounts is uncertain due to absence of documents to enforce collection, while the validity of various dormant payable accounts in Regions I and III amounting to P1.864 million was doubtful due to misclassification of accounts and absence of subsidiary ledgers, among others.	This was reiterated and updated in Part II, Observation and Recommendation No. 9 of this report.
	We recommended that Management:	
	a. Establish sound management practices to ensure that all receivables are collected/realized to prevent loss and wastage of government resources;	Partially Implemented.
	b. Require the Accountants to exert all effort to locate/retrieve the supporting documents and ledgers of the dormant receivable and payable accounts and to conduct in-depth analysis of these	Partially Implemented.

Observations and Recommendations	Actions Taken / Comments
accounts so that the necessary adjustments can be identified and recorded in the books;	
c. Continue sending collection letters to lending institutions and make representations with the PDIC on the possible recovery of receivables from closed lending banks; and	Partially Implemented. Demand letters were sent by the Management.
d. Comply with the requirements in requesting for write off of the dormant receivables from the Commission on Audit, pursuant to COA Circular No. 97-001.	Partially Implemented. Regional Offices are finalizing the requirements for the reconstruction of secondary evidence and are now preparing their request for write-off.
5. The existence, valuation and accuracy of Property, Plant and Equipment (PPE) account and its related accounts with a net book value (NBV) of P53.615 million could not be ascertained due to the unreconciled book balance and inventory report, absence of physical inventory in Region VI, absence or lack of updated ledger cards and property cards, erroneous computation of depreciation and lack of supporting documents. We recommended that Management:	Related discussion in Part II-Observation and Recommendation No. 8 of this report.
a. Require the Accounting Department and General Services Office to maintain the necessary PPE ledger cards and property cards and conduct periodic reconciliation of these records, and also reconcile the results of the physical count with these records;	Partially Implemented. Reconciliation is on-going.
b. Require the Accounting Department to adjust the erroneous computation of the beginning balance of the Leasehold Improvements, ensure that the Schedule of Monthly Depreciation contain all PPEs recorded in the books to make certain that depreciable assets are provided with	Partially Implemented. The concerned accounting personnel started analyzing and reconciling the affected accounts.

Observations and Recommendations		Actions Taken / Comments
	depreciation, and exercise due diligence in the computation of depreciation of PPEs to ensure correctness of the affected accounts;	
	c. Require the concerned Regional Office to immediately create a team to conduct physical inventory of properties and prepare written procedures to facilitate the conduct of inventory; and	Partially Implemented. Region VI has not conducted physical inventory in CY 2015.
	d. Require the Financial and Accounting Division of concerned Regional Offices to prepare necessary adjustments on the accumulated depreciation of the PPE account applying the revised estimated useful life provided in COA Circular No. 2003-007, and effect adjustment of the book value of unserviceable items in Regions I and XII.	Partially Implemented. Reconciliation is on-going.
6.	The PCIC was not able to regularly collect the 10 per cent of the lotto earnings of Philippine Charity Sweepstakes Office (PCSO) as payment of the subscription receivable from the National Government as mandated under Section 6.5 of Republic Act (RA) No. 8175 due to inadequate collection effort, which could affect the financial viability of Agency.	
	We recommended that Management:	
	a. Request the Accountant to analyze the Subscription Receivable account to ensure accuracy of the amount due from PCSO so that appropriate actions can be undertaken for the collection of government subscription as provided in RA No. 8175; and	Fully Implemented.
	b. Henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.	Partially Implemented. Constant follow-ups were made, but no remittance from the PCSO.

Observations and Recommendations	Actions Taken / Comments
7. The non-adherence with the pertinent provisions of the Rice and Corn Crop Insurance Operations Manual on the composition of the team of adjusters raises doubt on the fairness of the assessed losses in Region IV. In addition, Claims for Indemnity totalling P17.776 million were processed and paid despite deficient/lacking supporting documents, contrary to Section 6, PD No. 1445, thus the validity and propriety of such disbursements could not be thoroughly established.	
We recommended that Management instruct the Chief, Claims and Adjustment Division and the Chief, Administrative and Finance Division of Region IV to:	
a. Stop processing and paying claims with deficient documentations/ lacking supporting documents;	Partially Implemented. Deficiencies such as incomplete signatures, incomplete information, data and documents still exist.
b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totaling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and	Partially Implemented.
c. Henceforth, ensure strict compliance with the regulations on: (i) complete documentary requirements, particularly the presence of two adjusters in the assessment of loss or damages in the Claim Adjustment and Verification Report and the printing of their names thereat for proper identification; and (ii) submission of monthly reports of their transactions not later than the fifth day of the ensuing month.	Partially Implemented. Deficiencies still exist on some paid claims.

Observations and Recommendations		Actions Taken / Comments
8.	The remittance of premiums collected by 15 underwriters of the PCIC – Region IV was not properly monitored, thus remittance of premiums collected totaling P1.286 million was delayed by 1 to 38 days, contrary to the provisions of Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, thereby exposing the funds to possible loss and misuse.	Related discussion in Part II – Observation and Recommendation No. 13 of this report.
	We recommended that Management direct the Regional Manager to require the Head, Marketing and Sales Division to strictly enforce the provision on remittance of insurance premiums and remind underwriters of the sanctions for non-compliance thereto.	Not Implemented. Remittances of insurance premiums were delayed by 1 to 93 days after the allotted 15 days of remittance upon approval of the application of CICs.
9.	Only P39.372 million or 83.54 per cent out of P47.132 million WARA fund transferred was utilized in Region III because its insurance production depend on the general master list of farmers provided by the Municipal and City Agriculturist Office; while only P2.026 million or 20.87 per cent was utilized out of the P9.711 million allocation in Region VIII due to poor coordination between PCIC RO VIII, DA-RFU VIII or PCIC Head Office which resulted in lack of awareness of the Program; thus, the objective of providing insurance to more rice crop farmers was not satisfactorily attained.	
	We recommended that Management:	
	a. Require the Regional Manager of Region III to coordinate closely with the Municipal and City Agriculturist Office in the identification of all qualified farmer-beneficiaries under the subsidized insurance programs and request complete listing of the identified farmer-beneficiaries to maximize the utilization of fund subsidies; and	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
b. Always ensure that programs/ projects are properly and timely disseminated to the Regional Offices for the efficient and effective implementation of these programs/projects.	Fully Implemented.
10. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totaling P5.775 million were all eligible due to incomplete list of farmer-beneficiaries provided by the DA, incomplete documents supporting the Certificates of Insurance Cover (CICs), and supporting documents were not properly accomplished by the insured farmer-beneficiaries.	
We recommended that Management give instructions to the concerned regional Marketing and Services Division to:	
a. Require the Insurance Processor in Region IV to make the necessary steps to have all the documents supporting the 312 CICs be properly accomplished and to secure the lacking documents from the insured farmers, instruct the insurance underwriters to stop processing and approving applications for insurance coverage with incomplete/deficient documentations, and henceforth, comply strictly with the provision set forth in the MOA; and	Partially Implemented.
b. Obtain from DA-RFU VIII the list of identified farmer-beneficiaries who are eligible to the program, and henceforth, ensure that all insurance coverage be supported with this list.	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
11. Double insurance under WARA program and other insurance programs was provided to 1,838 farmer-beneficiaries in Regions II and III due to, among others, Farmers' Ledgers in the PCIC Automated Business System (PABS) for the different insurance covers are not linked to each other, depriving other qualified farmers of benefiting from the programs and also resulting in wastage of funds due to payment of same damage claimed under two insurance programs.	
We recommended that Management:	
a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and	Partially Implemented.
b. In the meantime that the PABS is still undergoing enhancement, provide instructions to the concerned Regional Marketing and Sales Divisions to thoroughly check the names of farmer-beneficiaries from the Farmer's Ledgers of all insurance programs which the target beneficiaries are the same to avoid overlapping of benefits or simultaneously extending similar insurance programs.	Partially Implemented.
12. There are 26 irrigators'/farmers' associations granted with the DA-GPS of P1.085 million under NIA Early and Third Cropping Program for rice crop during the years 2012 to 2014 which were not in the list of farmer-beneficiaries, while 24 borrowing farmers under the DA-LBP Sikat Saka Program in 2014 with total GPS of P226,838 were likewise not identified in the list of farmer-beneficiaries, thereby creating doubt on the propriety of the total GPS granted amounting to P1.312 million in Region VIII.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Management require the Regional Manager of Region VIII to:	
a. Coordinate with NIA for the submission of the complete list of farmers'/irrigators' associations who participated in the NIA Third Cropping Program and with DA-RFU VIII to submit the list of borrowing farmer-beneficiaries under the DA-LBP Sikat Saka Program to ascertain that the farmer-beneficiaries granted with the government share of the insurance premiums are legitimate and qualified; and	Fully Implemented.
b. Conduct periodic monitoring and evaluation of the GPS fund utilization to ensure that appropriate actions are timely instituted to any deficiencies noted in the implementation of the programs.	Fully Implemented.
13. Rates used in the computation of DA-GPS for crop insurance to farmer-beneficiaries for CYs 2012 to 2014 were not in accordance with the prescribed rates under the DA-LBP Sikat Saka and the NIA Early and Third Cropping Programs, thereby incurring an over grant of insurance premiums of P1.761 million in Regions V, VII and VIII, which could have been used to cover other eligible farmers.	
We recommended that Management require the Regional Managers to:	
a. Direct/Instruct the Insurance Processors to comply strictly with the prescribed rates in computing the GPS and amount of cover, and to apply the amount of cover provided in the Implementing Guidelines in the computation of claim of assured farmers granted with excessive subsidy, in case of crop damage or loss; and	Not Implemented.

Observations and Recommendations	Actions Taken / Comments
b. Prepare necessary directives for any modifications in the existing guidelines on the computation of GPS and amount of cover and ensure that the same are properly communicated to concerned personnel or party.	Fully Implemented.
14. Some guidelines under the project "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar" in Region VII were not strictly adhered to such as insuring farmers that planted non-hybrid rice, to the detriment of those who are qualified; insuring farmers without the Location Sketch of the Farm (LSF) and Group Farm Plan and Budget (GFPB) which cast doubt on the validity of the cover; non-preparation on a regular basis of the monitoring and evaluation reports thus, the inability to timely detect deficiencies; and non-liquidation of fund utilization.	
We recommended that Management require the Regional Manager to ensure that the:	
a. Marketing and Sales Division strictly follow the guidelines on the grant of GPS and to ensure that only those qualified rice farmers are provided with the premium subsidy, and to submit the required monthly reports to properly evaluate and monitor the implementation of the program and provide feedback for early detection and action on problems that may occur; and	Fully Implemented.
b. Insurance Processor and underwriting agents compel rice farmers to attach LSF and GFPB in their crop insurance applications to assure that only eligible farmers are insured.	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
15. There was no assurance that the GAD activities undertaken during the year were for the purpose of addressing gender issues since the Annual GAD Plan and Budget (GPB) was not approved by the DA and indorsed by the Philippine Commission on Women (PCW) to the DBM. Further, some regions did not have GPB while some have no Accomplishment Reports (ARs), contrary to Joint Circular No. 2012-01 of the PCW, National Economic and Development Authority (NEDA) and DBM.	
We recommended that Management:	
a. Formulate GAD Plan and ensure that this is approved by DA/PCW/DBM before its implementation;	Fully Implemented.
b. Require the concerned Accountant to be more cautious in the recording of GAD related expenses in order to ensure that appropriate amount is charged to GAD account; and	Fully Implemented.
c. Require the Regional Offices to have their respective GAD Focal Person, to implement their GAD Plans, and to submit the ARs to the Head Office.	Fully Implemented.
<u>CY 2013 AAR</u>	
16. Non-Current Receivables accounts of P443.172 million (gross) cannot be relied upon considering that 25.6 per cent or P113.450 million have been dormant from 5 to 33 years, without supporting documents, and which were not adequately provided with allowance for doubtful accounts.	This was reiterated and updated in Part II-Observation and Recommendation No. 9 of this report.
We recommended that Management require the Regional Accountants to give priority in analyzing the receivable accounts and reconcile their records	Partially Implemented. The required documentation for request for write-off has not been submitted yet by

Observations and Recommendations	Actions Taken / Comments
with the Head Office Accountant so that the necessary adjustments can be effected; and based on the corrected records, prepare the required documentation to support the request for write-off, in accordance with Section 4, Rule VIII of the 2009 Revised Rules of Procedure of the Commission on Audit.	Management.
17. The old indemnity schedule that was embedded in the PCIC Automated Business System (PABS) resulted in the net overpayment of indemnity claims amounting to P340,696 covering 40.7 per cent of the vouchers examined in only two Regional Offices, but the error could be more as the PABS was already fully operational since January 2013, hence, very disadvantageous to the PCIC and the affected farmers.	
We recommended that Management:	
a. Give instruction to all concerned to review all indemnity claims processed in the PABS during the year 2013; and thereafter, send collection letters to farmers who were overpaid and make additional payments to those who were underpaid;	Partially Implemented.
b. Review/enhance the PABS specifically on the computation of indemnity claims to ensure that all claims processed through the system are accurately computed; and	Partially Implemented.
c. Require the processors to always review the claims processed under the PABS until this is enhanced, to ensure accuracy of the computation of the insurance benefits.	Fully Implemented.
18. The accuracy of the Office Supplies Inventory account amounting to P0.738 million cannot be established due to recording of purchases including	

Observations and Recommendations	Actions Taken / Comments
undelivered supplies as outright expense, the absence of stock ledger cards and stock cards, and non-conduct of physical inventory.	
We recommended that Management require:	
a. The Head Office Accountant and the Supplies Custodian to determine the value of office supplies on hand as basis for the preparation of stock ledger cards and stock cards;	Partially Implemented. Stock ledger cards and stock cards maintained were only for current supplies.
b. The Head Office Accountant to record the stocks still on hand as at year-end as inventories; and henceforth, record all bulk purchases as Office Supplies Inventory account;	Partially Implemented. The supplies on hand were recorded as inventories; however, some purchases were still recorded as outright expense.
c. The Supplies Custodian to:	
c.1 Regularly monitor undelivered items from PS; but if the paid items are no longer available, deduct or offset from the succeeding procurements the value of the undelivered items; and	Partially Implemented There were still undelivered items from PS from the current purchases.
c.2 Be systematic in the physical arrangement of office supplies and as applicable, consider the expiration date of supplies in the issuance to prevent wastage.	Not Implemented.
19. Rates used in the payment of benefits and allowances of officers and employees exceeded the rates approved by the Department of Budget and Management (DBM) and the Office of the President in 1998, resulting in a total overpayment of P1.487 million.	
We recommended that Management request authority/approval of the increase in rates of the benefits and allowances from the Office of the President (OP) and Department of Budget and Management (DBM), but	Fully Implemented. The rates used in the payment of benefits and allowances of officers and employees were already based upon the COB duly approved by the DBM.

Observations and Recommendations	Actions Taken / Comments
meanwhile, follow the rates approved in 1998.	
20. Five personnel in the Head Office (HO) served as Officer-in-Charge (OIC) for more than one year without valid Special Order (SO), contrary to Item D of Civil Service Commission (CSC) Memorandum Circular (MC) No. 06, S. 2005.	
We recommended that Management strictly comply with the CSC guidelines on designations of Officer-In-Charge.	Partially Implemented. Special Order is being issued yearly to comply with the CSC guidelines on designations of Officers-In-Charge.
21. There was no assurance that only eligible beneficiaries were allowed to avail of the P1.0 billion premium subsidy fund for agricultural insurance under the Agrarian Reform Beneficiary - Agricultural Insurance Program (ARB-AIP) due to the non-compliance with the eligibility and documentary requirements in qualifying and proper identification of intended beneficiaries.	
We recommended that Management:	
a. Make strong representation with DARPO, DARRO and MARO for the submission of the required validation and identification of ARBs and issuance of the required certification to confirm that the farmers who were granted premium subsidy were qualified; and	Fully Implemented. Certifications are now being issued by the MARO to confirm that those farmers were qualified ARBs.
b. Provide clarification on the issuance of insurance coverage to a cooperative that did not meet the eligibility requirements based on the documents submitted; otherwise, immediately cancel or declare void the insurance coverage in accordance with Section 21.02.1, Part 3 of the Rice and Corn Crop Insurance Operations Manual.	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
22. Deviations from the required documentation in the processing of insurance coverage under the Weather Adverse Rice Areas Program with fund amounting to P167.235 million that is intended to mitigate losses that may be incurred by rice farmers in flood-prone areas brought about by the effect of climate change may have benefitted some non-eligible or non-existing farmers.	
We recommended that Management:	
a. Make representation with DA-RFU and Local Government Unit to submit the required pre-masterlist with certification on the identification of farmer-beneficiaries and endorsement to ensure that only qualified farmers were granted premium subsidy. In the absence of these documents, require the Regional Offices to conduct validation as to eligibility of the farmers; and thereafter, cancel the CICs of those who will be found not qualified under the program;	Fully Implemented. The City or Provincial Agriculture Officer signed and submitted to PCIC the Masterlist of Farmers. The Regional Management ensured that the concerned PCIC operating units and/or staff carried the recommendations.
b. Instruct the insurance underwriters to strictly process only application for insurance coverage with complete documentation duly signed by the authorized officials, in compliance with the MOA;	Partially Implemented.
c. Require the Marketing and Sales Division to follow up the reply of DA-RFUs on the deficiency letters of PCIC Region X;	Partially Implemented. Follow up of the reply of DA-RFU X on PCIC's Deficiency Letters has been made.
d. Submit justification for the issuance of insurance coverage for some localities/municipalities which were not identified as flood prone areas by the Mines and Geosciences Bureau-Region V; otherwise, the insurance coverage should be immediately cancelled or voided; and	Partially Implemented.

Observations and Recommendations	Actions Taken / Comments
e. Conduct investigation as to the legitimacy of the “list of participants” in Regions III and III-A that were granted insurance subsidy but with only the name of barangay and one contact number per list as the reference.	Partially Implemented. Date of birth and name of beneficiary were included in the revised application form. Revision of the application form still on-going.
23. The non-adherence in Region X to the pertinent provisions of the Rice and Corn Crop Insurance Operations Manual on the composition of team of adjusters raises doubt on the fairness of the assessment of losses that were undertaken.	
We recommended that Region X officials make representation with the Head Office to consider the modification of the rules and regulations set in the Operations Manual in the composition of team of adjusters considering the applicability and practicality of the present rules and regulations with the current operation and volume of transactions in the Region.	Partially Implemented.
CY AAR 2012	
24. The collection of insurance premiums for Group Crop Insurance Coverage for rice and corn in Region I and Region X amounting to P6.972 million and P1.380 million, respectively, could not be recorded as income due to the non-submission by lending institutions (LIs) of complete documentation within the prescribed period thus, rendering the balance of the income and liability accounts unreliable.	
We recommended that Management:	
a. Coordinate with the LIs/Land Bank of the Philippines (LBP) on submission of complete documentation within the	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
prescribed period, to avoid the lodging of premiums to Trust Liability account and to present the accurate amount of Gross Premiums and Reserve for Unearned Premiums in the Financial Statements; and	
b. Investigate the cause/s of delay in the submission of complete underwriting documents by the lending institutions and enforce legal action/sanction, if warranted in consonance with Section 14 of the IRR of RA No. 8175.	Fully Implemented. Underwriting agents of Regions I and X have followed up from the LIs the submission of supporting documents to comply the 15-calendar day deadline.
25. The Accounts Receivable - Disallowances/Charges account amounting to P10.180 million was not settled in violation of COA's rules and regulations on settlement of accounts.	Related discussion in Part II – Observation and Recommendation No. 9 of this report.
We recommended that Management:	
a. Comply strictly with the provisions of COA Circular No. 2009-006 dated September 15, 2009;	Not Implemented Outstanding amount as of December 31, 2015 is still at P10.189 million.
b. Implement vigorous collection strategies to enforce collection of long outstanding receivables;	Partially Implemented. The Finance Department has been sending collection letters to the retired employees with audit disallowances, particularly the Car Plan. Efforts are being made to collect the said disallowances.
c. Prioritize the re-construction of subsidiary ledgers of employees with disallowances to facilitate monitoring and collection of account balance; and	Partially Implemented. Management started the reconstruction of subsidiary ledgers of employees with disallowance.
d. Deduct the disallowance from the salary of active employees found liable.	Partially Implemented. Some of the disallowances are already settled by the concerned employees thru salary deduction.

Observations and Recommendations	Actions Taken / Comments
26. The manner of granting the clothing/uniform allowance of P0.855 million was not in accordance with DBM Budget Circular No. 2012-1; hence, might be disadvantageous to the Agency.	
We recommended that Management strictly observe the guidelines provided for in the DBM Budget Circular in the grant of clothing/uniform allowance where if the grant of clothing/uniform allowance shall be in the form of uniform to be procured from supplier, the procurement shall undergo public bidding as required in the Budget Circular.	Not Implemented. In accordance with Item 7.1.2 of Budget Circular No. 2012-1, the uniform/clothing allowance may be granted in the form of textile materials and cash to cover sewing, tailoring costs, as has been adopted by very large departments. Management justified that the CY 2012 uniform allowance was coursed through the PCIC - Employees Association (EA) to ensure that textile materials to be used are of the same quality and color for all rank and file employees. The reason for the transfer of fund to PCIC-EA is to make funds readily available whenever the uniform committee requested for payment to the sewers/suppliers. The uniform allowance is a regular benefit of all the officers and employees yearly and is appropriated as an expense. It should not, however, be a cause of deprivation of income because the entitlement of the aforementioned benefit should be accorded to the employees on a yearly basis.
27. Subsidiary Ledgers for Cash – Collecting Officers in Regions VI and VIII and for Advances to Officers and Employees in Region VIII were not maintained by the Accounting Section in violation of Section 114(2) of PD No. 1445 and Section 12 of Manual on the New Government Accounting System, Volume II, thus the difficulty in determining and monitoring the individual accountability/balance.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Management:	
a. Require the Accounting Section to maintain subsidiary ledger for every Accountable Officer to facilitate the determination of the individual accountability of the CO/DCO; and	Partially Implemented.
b. Require the Accounting Section to maintain subsidiary ledgers on cash advances to facilitate monitoring thereof and to serve as basis for granting another cash advance.	Partially Implemented. The concerned Accounting Section personnel in Regions VI and VIII started the preparation of and recording in the SLs.
28. As of December 31, 2012, the balance of COA audit suspensions and disallowances amounted to P3.181 million and P11.642 million, respectively.	
We recommended that Management vigorously enforce the settlement/ collection of the outstanding disallowances especially those that have become final and executory.	Partially Implemented. Management sent collection letters to those concerned employees with unsettled audit disallowance. However, no request for the writing-off of disallowances of those deceased employees has been made yet.

EXECUTIVE SUMMARY

INTRODUCTION

The Special Revolving Trust Fund (SRTF) was created under Letter of Instructions (LOI) No. 1242 dated May 21, 1982, a measure to facilitate Guarantee Payments under Masagana 99 Program. Under this program, lending institutions, particularly the Philippine National Bank (PNB) and rural banks, may avail of special guarantee payments of up to 85 per cent of the past due Masagana 99 loans, with the following conditions: a) have been in arrears for three years or more as of the date of effectivity of the LOI; and b) were not the subject of previous advances/payments from the Agricultural Guarantee Fund (AGF).

The Fund was set up for the purpose of restoring the good credit standing of these banks with the Bangko Sentral ng Pilipinas (BSP) and also to enable them to regain their capacity to render financial services to the rural communities by their continued participation in the supervised credit program.

The National Government appropriated P450 million for this purpose. The Philippine Crop Insurance Corporation (PCIC) received P75 million in calendar year (CY) 1982, P345.780 million during the last quarter of CY 1984 and P29.220 million in CY 1985.

Out of the total appropriations of P450 million, P301.717 million remained unutilized as of December 31, 2015 which were all invested in the Land Bank of the Philippines – High Yield Savings Account (LBP-HYSA).

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2015	2014	Increase (Decrease)
Assets	302.168	304.778	(2.610)
Liabilities	188.156	191.393	(3.237)
Trust fund	114.012	113.385	0.627

II. Comparative Results of Operations

	2015	2014	Increase (Decrease)
Income	2.907	2.770	0.137
Personal services	2.214	2.512	(0.298)
Maintenance and other operating expenses	0.131	0.116	0.015
Total expenses	2.345	2.628	(0.283)
Net income	0.562	0.142	0.420

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-SRTF (LOI 1242) for CY 2015. Our audit was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of PCIC-SRTF for CY 2015.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. There was an overcharging of P1.383 million in the manpower expenses due to the gross salaries of two personnel from CYs 2010 to 2013 totaling P1.537 million were 100 per cent charged to SRTF instead of 10 per cent only as provided under PCIC Memorandum Circular No. 2010-004, thus, resulted in the understatement of retained earnings of SRTF in the amount of P1.383 million and overstatement of the retained earnings of PCIC-Proper by the same amount as at December 31, 2015.

1.1 We recommended and Management agreed to:

a. Ensure that the amount of manpower services charged to SRTF is in accordance with PCIC Memorandum No. 2010-004 taking into consideration the activities required by the SRTF; and

b. Replenish the amount overcharged against SRTF with PCIC-Proper funds.

2. There are no more claimants as well as developments related to the primary purpose for which the SRTF was created; thus, its existence is not any longer essential and the remaining cash of P301.717 million as at December 31, 2015 could already be considered unnecessary special and trust fund as defined under Section 3.4 of the Department of Finance (DOF), Department of Budget and Management (DBM) and Commission on Audit (COA) Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012.

2.1. We recommended and Management agreed to:

a. Review and evaluate whether the purpose for which the SRTF has been established is already accomplished and if the Fund is no longer needed, return the remaining cash to the National Government pursuant to Executive Order (EO) No. 431;

b. Require the Finance Department to make the necessary reconciliation, consolidation, adjustment, and closing of the books of accounts of SRTF when the same is no longer needed; and

c. Coordinate with the Bureau of the Treasury on the requirements and procedures of returning the Fund to the National Government.

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **Special Revolving Trust Fund (SRTF) (LOI 1242)**, which comprise the Statement of Financial Position as at December 31, 2015, and the Statement of Comprehensive Income, Statement of Changes in Trust Fund and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Special Revolving Trust Fund (LOI 1242)** as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

May 26, 2016

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **PCIC-Special Revolving Trust Fund (SRTF)** is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2015 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Fund for the year then ended. The financial statements have been prepared in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

NOMER D. VIRAY
OIC, Finance Department

ATTY. JOVY C. BERNABE
President

7[th] Floor, Building A, NIA Complex, EDSA, Quezon City
Tel # (02) 441-1323 to 24 Telefax # (02) 441-1325

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(In Philippine Peso)

	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalent	4	301,716,794	304,109,327
		301,716,794	304,109,327
Non-current asset			
Accounts receivable-non-current - net	5	252,093	469,863
Other assets	6	198,625	198,625
		450,718	668,488
TOTAL ASSETS		**302,167,512**	**304,777,815**
LIABILITIES AND TRUST FUND			
Current liability			
Due to other funds - PCIC	7	549,606	3,757,000
		549,606	3,757,000
Non-current liabilities			
Accounts payable		69,348	99,324
Claims payable	8	187,536,617	187,536,617
		187,605,965	187,635,941
		188,155,571	191,392,941
Special revolving trust fund		114,011,941	113,384,874
TOTAL LIABILITIES AND TRUST FUND		**302,167,512**	**304,777,815**

The Notes on pages 89 to 93 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2015
(In Philippine Peso)

	Note	2015	2014
INCOME			
Interest income on investment	9	2,904,474	2,770,051
Interest income on savings/time deposit		2,993	220
		2,907,467	2,770,271
EXPENSES			
Salaries and wages		2,213,701	2,512,507
Travelling expense-local		11,691	39,431
Supplies and materials expense		60,306	56,000
Communication and postage		59,079	20,340
		2,344,777	2,628,278
NET INCOME		**562,690**	**141,993**

The Notes on pages 89 to 93 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CHANGES IN TRUST FUND
For the Year Ended December 31, 2015
(In Philippine Peso)

	Note	2015	2014
TRUST FUND			
Balance, January 1		113,384,874	112,603,813
Prior period adjustments	10	64,377	639,068
As restated		113,449,251	113,242,881
Net income		562,690	141,993
BALANCE AT END OF YEAR		**114,011,941**	**113,384,874**

The Notes on pages 89 to 93 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
CASH FLOW STATEMENT
For the Year Ended December 31, 2015
(In Philippine Peso)

	Note	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES			
Recoveries		-	639,068
Increase in payables		(2,955,223)	1,349,526
Operating income		562,690	141,993
		(2,392,533)	2,130,587
CASH FLOW FROM INVESTING ACTIVITIES		-	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT		(2,392,533)	2,130,587
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		304,109,327	301,978,740
CASH AND CASH EQUIVALENT AT END OF YEAR	4	**301,716,794**	**304,109,327**

The Notes on pages 89 to 93 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Special Revolving Trust Fund (SRTF) was created under the Letter of Instructions (LOI) No. 1242 dated May 21, 1982, "Providing a Measure to Facilitate Guarantee Payments under the Masagana 99 Program." Under this program, lending institutions, particularly the Philippine National Bank (PNB) and rural banks, may avail of special guarantee payments of up to 85 per cent of the past due Masagana 99 loans, with the following conditions: (a) have been in arrears for three years or more as of the date of effectivity of the LOI, and (b) were not the subject of previous advances/payments from the Agricultural Guarantee Fund (AGF).

The Fund was set up for the purpose of restoring the good credit standing of these banks with the then Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) and also to enable them to regain their capability to render financial services to the rural communities by their continued participation in the supervised credit program.

A special guarantee payment (SGP) scheme was evolved wherein PCIC, as administrator of the fund, would pay up to 85 per cent of the principal portion of these arrearages in three installments: (a) 25 per cent of the eligible loan arrearages on the first year; (b) 30 per cent on the second year; and (c) 30 per cent on the third year.

The beneficiary lending institutions are required to restructure these past due loans and to remit back to PCIC 85 per cent of the principal portion of all collection on these accounts.

The National Government appropriated P450 million for this purpose. The Philippine Crop Insurance Corporation (PCIC) received P75 million in calendar year (CY) 1982, P345.780 million during the last quarter of CY 1984, and P29.220 million in CY 1985.

Out of the total appropriations of P450 million, P301.717 million remained unutilized as of December 31, 2015, which were all invested in the Land Bank of the Philippines-High Yield Savings Account (LBP-HYSA).

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the PCIC-SRTF are as follows:

2.1 <u>Basis of Preparation</u>

The accompanying financial statements of PCIC-SRTF for the year ended December 31, 2015 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements. The financial statements have been prepared on a historical cost basis and the presentation and classification of items were shifted from New Government Accounting System (NGAS) to PFRS. The Insurance Premiums account in the Income Statement was later adopted/included in the revised Philippine Government Chart of Accounts with account description that was covered by a Memorandum dated January 23, 2007 by the then COA Government Accountancy and Financial Management Information System (GAFMIS) Sector.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS / PAS

Under PAS 1, unless the financial statements comply with all the requirements of PFRS they are not described as complying with PFRS/PAS. The PCIC-SRTF's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC-SRTF has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

Unless otherwise stated, the CY 2015 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial Investments

Financial assets and financial liabilities are recognized on the PCIC-SRTF's statement of financial position when it becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the PCIC-SRTF's management has the intention and ability to hold on to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The amortization is included in interest and similar income in the statement of comprehensive income.

An impairment loss is recognized in profit and loss when there is objective evidence that the asset is impaired. Those held-to-maturity financial investments with maturities in less than one (1) year are included in the current assets, and those with maturities greater than twelve (12) months after the statement of financial position date are classified as non-current assets.

3.2 Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount determined after an evaluation of the estimated collectibility of receivable balances considering, among others, the age of accounts. The Fund's current practice is to provide an allowance of 10 per cent after two years when the account becomes past due, except for the guaranteed receivables.

An allowance for doubtful accounts on Special Guarantee Payment (SGP) is provided equivalent to 50 per cent of the outstanding receivables as of end of CY 1998 spread over a five-year period. As of December 31, 2015, SGP has been provided with 100 per cent allowance.

3.3 Recognition of Income

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

4. CASH AND CASH EQUIVALENT

This account consists of collections, recoveries from PCIC and lending banks and income from investments, and investment with a term of 91 days and below.

	2015	2014
Cash in bank	-	78,210
LBP-HYSA	301,716,794	304,031,117
	301,716,794	**304,109,327**

The details of the LBP-HYSA as at December 31, 2015 are as follows:

	Account Number	Maturity Date	Amount
LBP-HYSA		-	539,503
30 days at 1.400 per cent	(0551-0552-80)	1/08/2016	272,473,294
30 days at 1.400 per cent	(0551-0562-87)	1/27/2016	28,703,997
			301,716,794

5. ACCOUNTS RECEIVABLE - NON-CURRENT

This account consists of the amount to be collected by Regional Offices from various farmer-borrowers/ banks.

	2015	2014
Accounts receivable – SGP	369,274,257	369,274,257
Less: Allowance for doubtful accounts	369,274,257	369,274,257
	-	-
Accounts receivable – banks	486,279	486,279
Less: Allowance for doubtful accounts	486,279	486,279
	-	-
Accounts receivable – PCIC (net)	252,093	469,863

Accounts Receivable – SGP account represents the 85 per cent of the total amount recoverable by the Trust Fund when claimant banks are eventually able to collect from farmer-borrowers. This account was provided with 100 per cent allowance in CY 2007 after the collection was determined to be doubtful.

Accounts Receivable – Banks represents recoveries and income from fines and penalties not remitted by the participating rural banks to the SRTF account, which are to be deducted from future SRTF claim-payments to those banks.

6. OTHER ASSETS

This account represents prepaid taxes on investments. The expired portion of prepaid taxes is being directly credited to this account instead of being charged to taxes and licenses account.

7. DUE TO OTHER FUNDS - PCIC

This represents accounts payable to PCIC for expenses incurred in connection with the management of the Fund.

8. CLAIMS PAYABLE

This represents the remaining unpaid portion of claims for SGP (2nd and 3rd installments) of the banks.

9. INTEREST INCOME ON INVESTMENT

This account represents interest on investments which is recognized based on the accrual method of accounting, net of the 20 per cent tax.

10. PRIOR PERIOD ADJUSTMENTS

	Office/ Region	Amount
Adjustments made in:		
Due to other funds-PCIC:		
Understatement – manpower expenses for CY 2012	V	(2,644)
Overstatement – manpower expenses for CY 2013	Head Office	15,172
Understatement – manpower expenses for CY 2013	III-A	(5,631)
Overstatement – manpower expenses for CY 2013	VII	50
Overstatement – manpower expenses for CY 2013	Head Office	87,061
To add back adjustment made in CY 2013		(176,312)
Overcharging of manpower expenses for CY 2014	Head Office	364,451
		282,147
Accounts receivable:		
To take up recoveries re: RB Lallo acct. for CY 2014	II	57,071
To take up recoveries re: PDIC of closed RBs Calumpit and Minalin for CY 2012	III	174,147
Fund transfer from PCIC in payment of recoveries		(641,913)
		(410,695)
Total adjustments for CY 2015		(128,548)
Transfer of PYA due to recoveries	III	192,925
PRIOR PERIOD ADJUSTMENTS, net		**64,377**

11. PENDING CASE

There is an on-going case with RB Gimba which may result to SRTF paying an estimated amount of P6 million to P10 million.

PART II – OBSERVATIONS AND RECOMMENDATIONS

1. There was an overcharging of P1.383 million in the manpower expenses due to the gross salaries of two personnel from calendar years (CYs) 2010 to 2013 totaling P1.537 million were 100 per cent charged to Special Revolving Trust Fund (SRTF) instead of 10 per cent only as provided under Philippine Crop Insurance Corporation (PCIC) Memorandum Circular No. 2010-004, thus, resulted in the understatement of retained earnings of SRTF in the amount of P1.383 million and overstatement of the retained earnings of PCIC-Proper by the same amount as at December 31, 2015.

1.1. The SRTF was created under Letter of Instructions (LOI) No. 1242 dated May 21, 1982, to provide a measure to facilitate guarantee payments under Masagana 99 Program. Under this program, lending institutions, particularly the Philippine National Bank (PNB) and rural banks, may avail of special guarantee payments of up to 85 per cent of the past due Masagana 99 loans. The Fund was set up for the purpose of restoring the good credit standing of these banks with the Bangko Sentral ng Pilipinas (BSP). The SRTF has separate books of accounts being maintained by the PCIC Head Office and Regional Offices.

1.2. Salaries of personnel involved in the accounting, recording, and other transactions of SRTF are being charged to the Fund, as provided under PCIC Memorandum Circular No. 2010-004 dated December 14, 2010, which states, *viz.*:

> *To ensure uniformity and realistic charging of expenses to the SRTF, the Head Office Departments/Offices and Regional Offices are hereby instructed to increase the actual manpower expenses from 5% of the Basic Pay to <u>10% of Gross Pay</u> xxx.* (Underlining supplied)
>
> *Head Office accounting personnel fully in-charge of SRTF accounts, HO/RO reciprocal accounts and other transactions involving SRTF shall have an actual manpower expense chargeable at 100% of gross pay.*

1.3. Examination of the manpower expenses charged to SRTF disclosed that there was an overcharging of P1.383 million, due to the salaries of two personnel of PCIC were 100 per cent charged to the Fund instead of 10 per cent of their gross pay only as provided in the above-mentioned PCIC Memorandum Circular, details shown in Table 1.

Table 1 – Computation of Amount Overcharged to Manpower Expenses from CYs 2010 to 2013

Year	Annual Gross Pay	Per SRTF books (100 per cent)	Per Audit (10 per cent)	Amount Overcharged
2010	343,998	343,998	34,399	309,599
2011	383,739	383,739	38,374	345,365
2012	405,619	405,619	40,562	365,057
2013	403,368	403,368	40,337	363,031
	1,536,724	**1,536,724**	**153,672**	**1,383,052**

1.4. The 100 per cent charging of gross pay to SRTF is only allowed when the personnel's sole responsibility and accountability comprise SRTF operations only. The Audit Team, however, observed that the two personnel have other work assignments in the Finance Department which require more labor and man-hours, i.e. handling accounting for PCIC-Proper.

1.5. The overcharging of manpower expenses resulted in the understatement of retained earnings of SRTF in the amount of P1.383 million and overstatement of the retained earnings of PCIC-Proper by the same amount as at December 31, 2015.

1.6. **We recommended and Management agreed to:**

a. Ensure that the amount of manpower services charged to SRTF is in accordance with PCIC Memorandum No. 2010-004 taking into consideration the activities required by the SRTF; and

b. Replenish the amount overcharged against SRTF with PCIC-Proper funds.

2. There are no more claimants as well as developments related to the primary purpose for which the SRTF was created; thus, its existence is not any longer essential and the remaining cash of P301.717 million as at December 31, 2015 could already be considered unnecessary special and trust fund as defined under Section 3.4 of the Department of Finance (DOF), Department of Budget and Management (DBM) and Commission on Audit (COA) Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012.

2.1. Section 3.4 of the DOF, DBM and COA Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012, re: Rules and Regulations Implementing Executive Order No. 431 dated May 30, 2005 Directing the Reversion of all Dormant Accounts, Unnecessary Special and Trust Funds to the General Fund and for Other Purposes, states, *viz*.:

> *Unnecessary special and trust funds – refer to authorized special and trust funds maintained by government agencies with* [Authorized Government Depository Banks] *AGDBs but which are no longer necessary for the attainment of the purposes for which said funds were established i.e., specific projects/programs, the implementation of which have been completed or abandoned.*

2.2. In the early 50's, the Philippine Government had started its movement to achieve the country's self-sufficiency in rice. However, during the early 70's, the country had underwent series of incidents which threatened the survival of its people. Thus, Masagana 99 Program was launched in CY 1973 to primarily intensify government's goal to regain the country's competency in rice production. In line with this, the program aims to help farmers to have access to improved technology, credit support, fertilizer subsidy and other agricultural assistance for them to increase their rice production.

2.3. The SRTF was established in CY 1982 under Letter of Instructions No. 1242 which was viewed to restore the good credit standing of the banks that suffered recovery problems from Masagana 99 Program, and thus, allowing rice farmers to have continued access to bank credits. The National Government allocated P450 million for the purpose and under this program, lending institutions may avail themselves of a Special Guarantee Payment (SGP) of up to 85 per cent of past due Masagana 99 loans.

2.4. Verification of records disclosed that out of the total funds released to PCIC of P450 million, P301.717 million remained unutilized as at December 31, 2015 which has been invested in the Land Bank of Philippines (LBP) – High Yield Savings Account. The Accounts Receivable – SGP of P369.274 million which represent 85 per cent of the total amount recoverable when claimant banks eventually are able to collect from farmer-borrowers and the Accounts Receivable – Banks of P486,279 which represent recoveries and income from fines and penalties not remitted by the participating rural banks were already provided with 100 per cent Allowance for doubtful accounts since CY 2007. Meanwhile, Claims Payable account amounting to P187.537 million representing the remaining unpaid portion of claims for SGP of the participating banks has been dormant since CY 2005.

2.5. Likewise, in the past few years, SRTF transactions have been minimal which mainly involve investment in LBP and charging of manpower expenses. As such, the purpose for which the SRTF has been established is no longer relevant or essential; thus, it may now be returned to the Bureau of the Treasury (BTr) in compliance with Executive Order (EO) No. 431 dated May 30, 2005, which provides that:

> *Once the purpose for which a special fund was created has been fulfilled or abandoned, the balance, if any, shall be transferred to the general funds of the government.*

2.6. **We recommended and Management agreed to:**

a. Review and evaluate whether the purpose for which the SRTF has been established is already accomplished and if the Fund is no longer needed, return the remaining cash to the National Government pursuant to EO No. 431;

b. Require the Finance Department to make the necessary reconciliation, consolidation, adjustment, and closing of the books of accounts of SRTF when the same is no longer needed; and

c. Coordinate with the BTr on the requirements and procedures of returning the Fund to the National Government.

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Climate Change Adaptation Project (PhilCCAP) is a pilot project, the objective of which is to develop and demonstrate approaches that would enable targeted communities to adapt to the potential impact of climate variability and change in the Philippines. This would be achieved by strengthening existing institutional frameworks for climate change adaptation, and by demonstrations of cost-effective adaptation strategies in agriculture and natural resources management.

The PhilCCAP comprises of four (4) components. The Department of Agriculture (DA) is in-charge of the implementation of Component 2 - Demonstrating CCA Strategies in Agriculture and Natural Resources Sectors. This component comprised of 4 sub-components such as: sub-component 2.1: Climate-proofing irrigation infrastructure; 2.2: Enhancing delivery and effectiveness of extension services for farm-level climate risk management; 2.3: Pilot-testing the feasibility of weather index-based crop insurance; and 2.4: Strengthening Climate Change Resilience through Improved Management of Protected Areas.

The Philippine Crop Insurance Corporation (PCIC) is in-charge of the implementation of Component 2.3 - Pilot testing the feasibility of weather index-based crop insurance as per Special Order No. 367, Series of 2012 issued by the DA.

A Memorandum of Agreement (MOA) was signed by the representatives of DA and PCIC on May 15, 2012. The MOA is effective upon its signing, for a period of one year and upon release of cash, and remains in force and effect unless terminated or extended.

To implement the project, the DA will transfer to PCIC the total amount of P10.045 million from PhilCCAP Fund for the operating requirement as indicated in the approved calendar years (CYs) 2011 and 2012 Work and Financial Plan. The DA has initially transferred to PCIC the amount of P4.191 million in June 2012.

Pending the release of additional Special Allotment Release Order (SARO) triggered by the approval of the increase of the Designated Account, the PCIC has provided a bridge financing, as authorized by its Board of Directors, under Board Resolution No. 2014-004 dated January 16, 2014, amounting to P3 million to partly finance the activities in CY 2014 and ensure the continuity of the project.

Another MOA was signed by the representatives of DA and PCIC on November 21, 2014 providing stipulations regarding the bridge financing provided by PCIC pending the release of additional SARO to the designated PhilCCAP account in the DA.

The DA agreed to transfer to PCIC the total amount of P12.604 million to finance the trainings, workshops and incremental operating cost requirements of Component 2.3 as per approved revised CY 2014 Work and Financial Plan inclusive of the P3 million bridge financed by PCIC to be reimbursed from the PhilCCAP fund.

FINANCIAL HIGHLIGHTS (In Million Pesos)

	2015	2014	Increase (Decrease)
Assets	5.845	1.439	4.406
Liabilities	0.655	2.045	(1.390)
Trust fund	5.190	(0.606)	5.796

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-PhilCCAP for CY 2015. Our audit was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of PCIC-PhilCCAP for CY 2015.

SUMMARY OF AUDIT OBSERVATION AND RECOMMENDATION

1. The accuracy and reliability of the Property, Plant and Equipment (PPE) account with net book value totalling P346,174 could not be determined due to lack of subsidiary ledgers (SLs), PPE Ledger Cards and property cards (PCs) and absence of physical inventory.

1.1 We recommended and Management agreed to:

a. Require the Accounting Department and the General Services Office to maintain SLs, PPE Ledger Cards and PCs which shall be regularly reconciled with the respective General Ledger balances; and

b. Create an Inventory Committee to conduct physical count of PPE, prepare the Report on the Physical Count of PPE and submit to the Auditor. Reconcile the results thereof with the SLs, PPE Ledgers and PCs.

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor, NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **PCIC-Philippine Climate Change Adaptation Project (PhilCCAP)**, which comprise the balance sheet, statement of expenses and schedule of cash available as of December 31, 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **PCIC-PhilCCAP** as at December 31, 2015 in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

May 26, 2016

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **Philippine Climate Change Adaptation Project (PhilCCAP)** is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2015 and the related Statement of Expenses, Statement of Funds Available for the year then ended. The financial statements have been prepared in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

NOMER D. VIRAY	**NORMAN R. CAJUCOM**
DM, Finance	SVP-ORMG

Noted:

ATTY. JOVY C. BERNABE
President

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
BALANCE SHEET
AS OF DECEMBER 31, 2015
(In Philippine Peso)

	Note	2015	2014
ASSETS			
Cash in bank - local-currency account	3	5,220,166	31,665
Petty cash fund		-	10,000
Due from regional office/PhilRice	4	278,608	888,028
Property, plant and equipment, net	5	346,174	509,357
TOTAL ASSETS		**5,844,948**	**1,439,050**
LIABILITIES AND FUND			
PCIC-PhilCCAP fund	6	5,189,731	(606,164)
Withholding tax payable		19,445	2,917
Other payables - PCIC	7	635,638	2,042,163
Accounts payable - others		134	134
TOTAL LIABILITIES AND FUND		**5,844,948**	**1,439,050**

The Notes on pages 103 to 106 form part of these financial statements.

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF EXPENSES
AS OF DECEMBER 31, 2015
(In Philippine Peso)

Particulars	**Amount**
Agricultural expenses	2,172,520
Travelling expense - local	704,628
Other professional expenses	870,355
Communication and postage	77,820
Materials, stationeries and office supplies	619,107
Training expenses	135,000
Other maintenance and other operating expenses	851,010
Bank charges	550
Representation expenses	633,728
Fuel and lubricants	35,460
Internet expense	7,613
Depreciation expense	561,013
Repairs and maintenance	2,364
Delivery expenses	990
Other office supplies expense	248,000
Total Expenses	**6,920,158**

The Notes on pages 103 to 106 form part of these financial statements.

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
SCHEDULE OF CASH AVAILABLE
AS OF DECEMBER 31, 2015
(In Philippine Peso)

Cash in bank as of June 29, 2012		4,191,000
Additional fund transfer from DA on September 10, 2015		7,000,000
Interest income from local banks		11,702
Accounts payable - PCIC		635,638
Accounts payable - others		134
Withholding tax payable		19,445
Funds available		11,857,919
Less: Fund allocation/provision		
Due from Regional Office No. IV		278,608
Fund related expenses:		
Agricultural expenses	2,172,520	
Travelling expense - local	704,628	
Other professional expenses	870,355	
Communication and postage	77,820	
Materials, stationeries and office supplies	619,107	
Training expenses	135,000	
Other maintenance and other operating expenses	851,010	
Bank charges	550	
Representation expenses	633,728	
Fuel and lubricants	35,460	
Internet expense	7,613	
Repairs and maintenance	2,364	
Delivery expenses	990	
Other office supplies expense	248,000	6,359,145
Total fund allocation/provision		6,637,753
Net cash available as of December 31, 2015		**5,220,166**
Adjusted cash balance as of December 31, 2015		**5,220,166**

The Notes on pages 103 to 106 form part of these financial statements.

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Philippine Climate Change Adaptation Project Phase 1 (PhilCCAP1) was created under the Memorandum of Agreement (MOA) dated January 17, 2011. On June 29, 2012, the Philippine Crop Insurance Corporation (PCIC) received funds amounting to Four Million One Hundred Ninety One Thousand Pesos (P4,191,000) to be used for the implementation of the PhilCCAP1, a pilot grant project funded by the World Bank which aims to develop and demonstrate approaches that would enable targeted communities to adapt to the potential impacts of climate variability and change in the Philippines.

PhilCCAP1 also aims to strengthen the capabilities of government agencies involved in climate change adaptation and the following are the implementing agencies:

- Department of Environment and Natural Resources (DENR);
- Department of Agriculture (DA); and
- Philippine Atmospheric, Geophysical and Astronomical Services Administration - Department of Science and Technology (PAGASA-DOST).

The Project has four (4) major components and sub-components as follows:

Component 1: Strengthening the Enabling Environment for Climate Change Adaptation.

Component 2: Demonstrating Climate Change Adaptation Strategies in the Agriculture and Natural Resources Sectors.
- 2.1 Climate-proofing irrigation infrastructure and other agricultural infrastructure.
- 2.2 Enhancing delivery and effectiveness of extension services for farm-level climate risk management.
- 2.3 Pilot-test the feasibility of weather index-based crop insurance.
- 2.4 Strengthening climate change resilience through improved management of protected areas.

Component 3: Enhanced Provision of Scientific Information for Climate Risk Management.
- 3.1 Enhanced Provision of Scientific information to guide the design of adaptation actions.
- 3.2 Strengthen the institutional capacity for effective climate risk management.

Component 4: Project Coordination.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of PCIC-PhilCCAP are as follows:

2.1 Basis of Preparation

The accompanying financial statements of PCIC-PhilCCAP for the year ended December 31, 2015 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements. The financial statements have been prepared on a historical cost basis and the presentation and classification of items were shifted from New Government Accounting System (NGAS) to PFRS.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS / PAS

Under PAS 1, unless the financial statements comply with all the requirements of PFRS they are not described as complying with PFRS/PAS. The PCIC-PhilCCAP's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC-PhilCCAP has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

Unless otherwise stated, the calendar year (CY) 2015 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

3. CASH IN BANK-LOCAL CURRENCY ACCOUNT

This account represents the remaining available cash in bank for the implementation of the PhilCCAP1.

4. DUE FROM REGIONAL OFFICE/PHILRICE

This account consists of the following:

	2015	2014
Due from Regional Office No. II	-	47,245
Due from Regional Office No. VI	278,608	-
Due from PhilRice	-	840,783
	278,608	**888,028**

5. PROPERTY, PLANT AND EQUIPMENT

This account pertains to the equipment used in the implementation of the PhilCCAP1.

	2015	2014
Office equipment	627,707	627,707
Less: accumulated depreciation	414,286	301,299
	213,421	326,408
IT equipment	279,480	279,480
Less: accumulated depreciation	146,727	96,531
	132,753	182,949
	346,174	**509,357**

6. PCIC-PHILCCAP FUND

This account consists of the following:

	Amount
Fund received from DA on June 29, 2012	4,191,000
Total amount of property, plant and equipment	907,187
Fund received from DA on September 10, 2015	7,000,000
	12,098,187
Add: Interest income (cumulative)	11,702
	12,109,889
Less: Cumulative expenses	6,920,158
	5,189,731

7. OTHER PAYABLE- PCIC

This account represents the total payable of PCIC-PhilCCAP to PCIC under the latter's Bridge Financing for a maximum amount of P3,000,000 per PCIC Board Resolution No. 2014-004 dated January 16, 2014.

8. EXPENSES

The following are the total cumulative expenses incurred in the implementation of PhilCCAP1 as of December 31, 2015.

	Amount
Agricultural expenses	2,172,520
Travelling expense - local	704,628
Other professional expenses	870,355
Communication and postage	77,820
Materials, stationeries and office supplies	619,107
Training expenses	135,000
Other maintenance and other operating expenses	851,010
Bank charges	550
Representation expenses	633,728
Fuel and lubricants	35,460
Internet expense	7,613
Depreciation expense	561,013
Repairs and maintenance	2,364
Delivery expenses	990
Other office supplies expense	248,000
	6,920,158

PART II – OBSERVATION AND RECOMMENDATION

1. The accuracy and reliability of the Property, Plant and Equipment (PPE) account with net book value totalling P346,174 could not be determined due to lack of subsidiary ledgers (SLs), PPE Ledger Cards and property cards (PCs) and absence of physical inventory.

1.1 Verification revealed that there were no SLs, PPE Ledger Cards and PCs maintained for each item of PPE with total net book value of P346,174 as at December 31, 2015, contrary to Section 43 of the Manual on the New Government Accounting System (MNGAS), Volume I which requires that *"the Accounting Unit shall maintain xxx Property, Plant and Equipment Ledger Cards for each category of property, plant and equipment. Xxx. For check and balance, the Property and Supply Officer/Unit shall maintain Property Cards (PC) for property, plant and equipment xxx. The balance in quantity per PC xxx should always reconcile with the ledger cards of the Accounting Unit."*

1.2 Moreover, it has been noted that Management failed to conduct annual physical inventory of PPE for calendar years (CYs) 2014 and 2015, hence, no Report on the Physical Count of PPE (RPCPPE) was submitted. The absence of physical inventory is contrary to Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume I and Section 122 of Presidential Decree (PD) No. 1445 which provide, *viz*.:

> *Chief of agencies are required to take a physical inventory of all equipment and supplies belonging to their respective offices at least once a year, xxx. Such inventory shall be made as of December 31 xxx, and submitted to the Auditor not later than January 31 of each year xxx.* [Section 490 (a) of GAAM Volume I]
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> *Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit xxx physical inventory reports xxx as may be necessary for the exercise of its functions.* [Section 122 of PD No. 1445]

1.3 In view of the non-conduct of annual physical count of PPE there is a difficulty in validating the existence, status or condition of the properties. Likewise, the non-maintenance of the SLs and PPE Ledger Cards by the Accounting personnel and PCs by the Property Officer, reconciliation of both records could not be undertaken. Thus, the accuracy and reliability of the balance of PPE account with net book value totalling P346,174 at year end could not be determined.

1.4 **We recommended and Management agreed to:**

a. Require the Accounting Department and the General Services Office to maintain SLs, PPE Ledger Cards and PCs which shall be regularly reconciled with the respective General Ledger balances; and

b. Create an Inventory Committee to conduct physical count of PPE, prepare the RPCPPE and submit to the Auditor. Reconcile the results thereof with the SLs, PPE Ledgers and PCs.